

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Albion	County Calhoun
Fiscal Year End 12/31/2006	Opinion Date 6/18/2007	Date Audit Report Submitted to State 6/28/2007	

We affirm that:

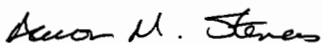
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☐ ☒ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number 517-351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
		Zip 48823	
Authorizing CPA Signature 	Printed Name Aaron M. Stevens, CPA		License Number 1101024055

**City of Albion
Calhoun County, Michigan**

FINANCIAL STATEMENTS

December 31, 2006

City of Albion

Calhoun County, Michigan

December 31, 2006

CITY COUNCIL AND ADMINISTRATION

Mr. William M. Wheaton

Mayor

Mr. Ron Gant

Council member

Ms. Betty Branche

Council member

Mr. Ken Karl Waito

Council member

Mr. Andrew Zblewski

Council member

Ms. Cheryl Krause

Council member

Mr. George Strander

Council member

Mr. Mike Herman

City Manager

Ms. Kerry Helmick

Clerk/Treasurer/
Finance Director

City of Albion

TABLE OF CONTENTS

December 31, 2006

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	i-ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii-x
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Governmental Funds Balance Sheet	3-4
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	5
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	6-7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Statement of Net Assets - Proprietary Funds	9
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	10
Statement of Cash Flows - Proprietary Funds	11-12
Statement of Fiduciary Net Assets	13
Statement of Changes in Fiduciary Net Assets	14
Combining Statement of Net Assets - Component Units	15
Statement of Activities - Component Units	16
Notes to Financial Statements	17-38
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	39-41
Budgetary Comparison Schedule - Community Development Block Grant Fund	42
Budgetary Comparison Schedule - Revolving Loan Fund	43
Budgetary Comparison Schedule - Albion Trust Fund	44
OTHER SUPPLEMENTARY INFORMATION	
Combining Balance Sheet - Nonmajor Governmental Funds	45-48
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	49-52
Combining Statement of Fiduciary Assets - Agency Funds	53
Combining Statement of Fiduciary Net Assets - Private Purpose Trust Funds	54
Combining Statement of Changes in Fiduciary Net Assets - Private Purpose Trust Funds	55
COMPONENT UNIT FUNDS	
ECONOMIC DEVELOPMENT CORPORATION	
Combining Balance Sheet	56
Reconciliation of the Combining Balance Sheet to the Statement of Net Assets	57
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	58
Reconciliation of the Combining Statement of Revenues, Expenditures, and Changes in Fund Balances of the Governmental Funds to the Statement of Activities	59

TABLE OF CONTENTS - CONTINUED

December 31, 2006

PAGE

COMPONENT UNIT FUNDS - CONTINUED

DOWNTOWN DEVELOPMENT AUTHORITY

Combining Balance Sheet	60
Reconciliation of the Combining Balance Sheet to the Statement of Net Assets	61
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	62
Reconciliation of the Combining Statement of Revenues, Expenditures, and Changes in Fund Balances of the Governmental Funds to the Statement of Activities	63

TAX INCREMENT FINANCE AUTHORITY

Balance Sheet	64
Reconciliation of the Balance Sheet to the Statement of Net Assets	65
Statement of Revenues, Expenditures, and Changes in Fund Balance	66
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities	67

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

68-71

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Albion
Albion, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of the City of Albion as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of the City of Albion as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2007 on our consideration of the City of Albion's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Albion's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 18, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2006

This discussion and analysis is intended to provide an overview of the City's financial condition for the year ended December 31, 2006, as well as an analysis of what this financial condition means for the future financial operations of the City. This is the third year that the requirements of the Governmental Accounting Standards Board (GASB) Statement Number 34 will be implemented for the City. Therefore it is possible to provide direct comparisons with financial information from the prior year's operations. The information provided in this discussion and analysis should be reviewed in conjunction with the audit information provided in the audit of the City's 2006 fiscal year.

Government-Wide Financial Statements

Under GASB 34 government-wide financial statements have been added to the audit process with the intent of providing a broad overview of the City's finances. The government-wide statements are presented on a full accrual basis of accounting, similar to a private business. This means revenues are accounted for when they are earned and expenses are accounted for when incurred, regardless of when the actual cash is received or disbursed. Two government-wide statements are provided. One government-wide statement, the Statement of Net Assets, presents information on all of the City's assets and liabilities with the difference shown as net assets. Over time, increases or decreases in the City's net assets may be an indicator of whether the City's financial health is improving or deteriorating. However, other factors both financial and non-financial should be considered in assessing the overall financial health of the City.

The second government-wide statement, the Statement of Activities, provides information on how the government-wide net assets changed during the fiscal year. All changes in net assets are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in the statements for some items that will only result in cash flows in future financial periods, such as uncollected taxes and earned but unused employee annual leave.

In the Statement of Net Assets and the Statement of Activities, we report the following kinds of activities:

- Governmental Activities - Most of the City's basic services are reported here, including, but not limited to, police, fire, general administration, parks and recreation, public works, major and local streets and the library. Taxes, charges for services and intergovernmental revenue primarily fund these services.
- Business-type Activities - These activities operate like private business. The City charges fees to recover the cost of the services provided. The City's water and sewer activities are reported here.
- Component Units - Component units are legally separate organizations for which the City Council appoints a majority of the organizations board and there is a degree of financial accountability to the City. Component units for the City of Albion are the Downtown Development Authority (DDA), the Economic Development Corporation (EDC) and the Tax Increment Finance Authority (TIFA).

Following the government-wide financial statements will be Governmental Fund Financial Statements. While the government-wide financial statements are presented on a full accrual basis of accounting, the Governmental Fund Financial Statements are presented on a modified accrual basis of accounting.

The differences between the full accrual basis and modified accrual basis of accounting are primarily related to inclusion of capital assets and recognition of certain receivables and long-term liabilities in the Government-wide Statement of Net Assets, which are not included in the Governmental Funds Balance Sheet. Also, there is a difference related to the timing of reporting capital outlays and debt principal repayment in the Governmental Funds Financial Statements and a difference in the timing of the recognition of certain revenues and expenditures such as bond proceeds, accrued interest and accrued employee leave time in the Governmental Funds Financial Statements versus the Government-wide Statements. (See following table)

City of Albion

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2006

Item Description	Government-Wide Statements	Government Fund Statements
Capital Assets	Depreciation reported	Depreciation not reported
Capital Outlay	Capital asset	Reported as expenditure
Internal Service Fund (Equip. Pool)	Government activity	Proprietary fund
Long-term liability (sick leave)	Liability	Actual expenditures
Bond proceeds	Liability	Other financing source

Fund Financial Statements

The Fund Financial Statements provide detailed information about the most significant funds (activities); not the City as a whole. A Fund is a fiscal and accounting entity with a self-balancing set of accounts that the City uses to keep track of specific sources of funding and spending for a particular purpose. GASB 34 defines these significant funds as "major funds" which are reported separately as part of the Fund Financial Statements portion of the audit.

The Major funds for the City of Albion include the General Fund, CDBG, Albion Building Authority, Revolving Loan, Albion Trust, Library Trust, Sewer and Water. All other funds will be classified as nonmajor funds and are reported in aggregate by the applicable fund type. All of the funds of the City of Albion can be divided into three categories; governmental funds, proprietary funds and fiduciary funds.

Governmental Funds - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. The City of Albion maintains several individual governmental funds. These funds are presented in the Balance Sheet under Governmental Fund Types under the categories of General Fund, Special Revenue Funds, Debt Service Funds and Capital Project Funds.

Proprietary Funds - When the City charges customers for the services it provides, these services are generally reported in Proprietary Funds. The City of Albion uses two types of proprietary funds. Enterprise Funds are used to report the activities for the water and sewer operations. The Internal Service Fund is used to report the activities for the equipment pool operations.

Fiduciary Funds - The City of Albion is the trustee, or fiduciary, for the following funds: Public Safety Officers' Pension and the Retiree Health Care. All of the City's fiduciary funds are reported in a separate statement of Fiduciary Net Assets. The government-wide statements exclude the fiduciary fund activities and balances because these assets are not available to the City of Albion to fund its operations.

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the detail provided in the government-wide and fund financial statements.

Other Information

Following the basic financial statements is additional required supplementary information, which further explains and supports the information in the financial statements. Other supplementary information includes combining financial statements for nonmajor governmental funds, component unit funds and schedules of outstanding debt.

City of Albion

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2006

Government-Wide (City as a Whole) Financial Analysis

The Statement of Net Assets provides information that can be helpful in evaluating the City's financial condition. The net assets and changes over time can provide an indication of whether the City's financial health is improving or deteriorating. However, it should be noted that other factors both economic and non-economic can affect the City's financial health.

The largest portion of the City's net assets is invested in capital assets (streets, buildings, land, equipment, and utility systems). These assets are used to provide services to residents in the community and therefore these assets are not available to pay operating expenses, etc. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the funds needed to repay current City debt must be provided from other sources, since the capital assets themselves cannot be used to cover these liabilities.

Net Assets as of December 31, 2006 and 2005

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current and Other Assets	\$ 6,813,771	\$ 6,500,504	\$ 2,307,345	\$ 2,023,292	\$ 9,121,116	\$ 8,523,796
Capital Assets	<u>5,096,829</u>	<u>4,737,841</u>	<u>9,371,038</u>	<u>9,671,974</u>	<u>14,467,867</u>	<u>14,409,815</u>
Total Assets	<u>\$11,910,600</u>	<u>\$11,238,345</u>	<u>\$11,678,383</u>	<u>\$11,695,266</u>	<u>\$23,588,983</u>	<u>\$22,933,611</u>
Current Liabilities	\$ 1,284,096	\$ 1,306,002	\$ 214,494	\$ 271,547	\$ 1,498,590	\$ 1,577,549
Noncurrent Liabilities	<u>2,279,959</u>	<u>2,198,319</u>	<u>1,396,903</u>	<u>1,439,137</u>	<u>3,676,862</u>	<u>3,637,456</u>
Total Liabilities	<u>\$ 3,564,055</u>	<u>\$ 3,504,321</u>	<u>\$ 1,611,397</u>	<u>\$ 1,710,684</u>	<u>\$ 5,175,452</u>	<u>\$ 5,215,005</u>
Net Assets						
Invested in Capital Assets (net of related debt)	\$ 2,874,864	\$ 2,638,195	\$ 8,081,038	\$ 8,291,563	\$10,955,902	\$10,929,758
Restricted	428,229	238,603	-	-	428,229	238,603
Unrestricted	<u>5,043,452</u>	<u>4,857,226</u>	<u>1,985,948</u>	<u>1,693,019</u>	<u>7,029,400</u>	<u>6,550,245</u>
Total Net Assets	<u>\$ 8,346,545</u>	<u>\$ 7,734,024</u>	<u>\$10,066,986</u>	<u>\$ 9,984,582</u>	<u>\$18,413,531</u>	<u>\$17,718,606</u>

The Total Net Assets for Governmental Activities increased by about \$613,000 which is a result of about a \$337,000 increase in the General Fund balance, about a \$106,000 increase in the Albion Building Authority fund balance, and about a \$148,000 increase in the Major Street fund balance. The Total Net Assets for Business-type Activities increased by about \$82,000 which is a result of about a \$134,000 increase in the Water fund balance, offset by a short fall in operating revenues to cover current operating expenses in the Sewer fund by about \$52,000.

City of Albion

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2006

Changes in Net Assets for the Fiscal Year Ended December 31, 2006 and 2005

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues						
Program Revenues						
Charges for Services	\$ 848,089	\$ 797,026	\$ 1,891,458	\$ 1,629,355	\$ 2,739,547	\$ 2,426,381
Grants and Contributions	1,220,895	1,085,945	208,980	-	1,429,875	1,085,945
General Revenues						
Property Taxes	2,238,658	2,301,836	-	-	2,238,658	2,301,836
Income Taxes	1,216,623	1,126,096	-	-	1,216,623	1,126,096
State Shared Revenues	1,274,408	1,262,039	-	-	1,274,408	1,262,039
Investment Earnings	251,874	147,299	49,358	18,611	301,232	165,910
Miscellaneous	<u>232,007</u>	<u>218,895</u>	<u>58,031</u>	<u>38,057</u>	<u>290,038</u>	<u>256,952</u>
Total Revenues	<u>\$ 7,282,554</u>	<u>\$ 6,939,136</u>	<u>\$ 2,207,827</u>	<u>\$ 1,686,023</u>	<u>\$ 9,490,381</u>	<u>\$ 8,625,159</u>
Expenses						
General Government	\$ 1,769,996	\$ 1,628,968	\$ -	\$ -	\$ 1,769,996	\$ 1,628,968
Public Safety	2,405,815	2,303,079	-	-	2,405,815	2,303,079
Public Works	1,408,020	1,141,159	-	-	1,408,020	1,141,159
Health and Welfare	90,112	144,292	-	-	90,112	144,292
Community and Econ. Development	509,226	411,445	-	-	509,226	411,445
Recreation and Cultural	388,525	251,617	-	-	388,525	251,617
Interest on Long Term Debt	98,409	89,948	-	-	98,409	89,948
Other	<u>-</u>	<u>206,942</u>	<u>2,125,423</u>	<u>2,015,054</u>	<u>2,125,423</u>	<u>2,221,996</u>
Total Expenses	<u>6,670,103</u>	<u>6,177,450</u>	<u>2,125,423</u>	<u>2,015,054</u>	<u>8,795,526</u>	<u>8,192,504</u>
Change in Net Assets	612,451	761,686	82,404	(329,031)	694,855	432,655
Net Assets - Beginning Prior Period	7,734,024	7,132,327	9,984,582	10,293,073	17,718,606	17,425,400
Adjustments	(-)	(159,989)	-	20,540	(-)	(139,449)
Net Assets Ending	<u>\$ 8,346,475</u>	<u>\$ 7,734,024</u>	<u>\$ 10,066,986</u>	<u>\$ 9,984,582</u>	<u>\$ 18,413,461</u>	<u>\$ 17,718,606</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2006

Governmental Activities

Revenues:

The General Fund is the largest Fund in the Governmental Activities grouping. For the General Fund, the three largest single revenue sources are Property Taxes at 29%, State Revenue Sharing at 25%, and the City Income Tax at 24%. In November 2003, City voters approved a three-year 1.0 mill levy for Public Safety and a three-year 0.80 mill levy for Recreation. These extra millage amounts will be collected in 2004, 2005, and 2006 respectively. From 2005 to 2006 there was a decrease in property tax revenue of about \$63,000 which is primarily a result of the collection of a significant amount of delinquent personal property taxes in 2005. It is anticipated that property taxes in the future will increase at the rate of inflation from the level in 2006.

As a result of the closing of Trillium Hospital, Harvard Industries, and K-Mart in the spring of 2002, the City lost over 800 local jobs. This, along with a prolonged downturn in the economy, has resulted in about a \$300,000 reduction in the annual revenue generated by the local city income tax. The city income tax revenue has leveled off at about \$1.2 million from a previous high of about \$1.5 million. From 2005 (\$1,126,096) to 2006 (\$1,216,623) income tax revenues increased by about 8.0%. It is anticipated that we will continue to see modest increases each year if the economy continues to improve.

Annual State Revenue Sharing, as a result of the downturn in the State economy, has likewise seen a significant reduction to about \$1.3 million from a previous high of just over \$1.5 million. The State revenue sharing amount has also been negatively impacted as a result of the City's continued population decline of about 1,000 people per decade since 1970. The City's current (2000 census) population is 9,144, as compared to its highest level of 12,749 residents in 1960. It is anticipated that State Revenue Sharing payments will remain relatively flat for the next few years.

Expenses:

The largest Governmental Activities expense item is Public Safety which is 49% of General Fund expenditures. The next largest expense item is General Government at 26% of total expenses. Cost increases are primarily the result of the increasing cost for employee pay and fringe benefits as well as utility and insurance costs.

Business-Type Activities

The Statement of Net Assets shows that for Business-type Activities as of December 31, 2006 there were Total Net Assets of \$10,066,986, which represents an increase of \$82,404 from the prior year. The Statement of Net Assets is significantly affected by the recording of depreciation expense. For utility funds the City's charter requires that rates be "...fixed as to at least meet all the costs of such utility, including depreciation". Therefore, the City's utility funds record depreciation even if revenues are not sufficient to fund depreciation for the fiscal year.

Financial Analysis of the City's Major Funds

General Fund:

The General Fund is the primary operating fund of the City of Albion. As of December 31, 2006, the General Fund had an undesignated fund balance of \$897,016 and a reserved fund balance of \$85,254. This amount is an increase of \$335,503 from the fund balance (\$561,513) on December 31, 2005. Included in the General Fund balance is \$114,816 that was designated for the purchase of E-911 equipment. Removing this amount from the General Fund leaves an undesignated General Fund balance of \$782,200 for December 31, 2006.

From a budgetary standpoint, General Fund revenues exceeded the budgeted amount by \$69,961 and expenditures were below budget by \$197,412. The majority of the departments and activities were under budget for expenditures for 2006. There are a couple areas that exceeded the budgeted amount for expenditures and these areas need to be more closely monitored in the future.

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2006

The Recreation program is partially funded by a special voted millage of 0.80 mills per year (revenues estimated at \$80,000). In order to meet the anticipated expenditures for the program, it is necessary to raise additional revenues at the local level. Expenditures for the recreation department increased in 2005 and 2006 in an effort to provide after school program activities which the public schools could no longer provide as a result of the loss of grant funding. As a result of these extra expenditures, the recreation department was over budget by about \$25,000. The City is still planning for an additional \$10,000 in reimbursement for the USDA summer food program, which would reduce the over budget amount to about \$15,000.

Under the General Appropriation area in the General Fund, we always seem to struggle to stay within budget. Part of the reason for this is that the General Appropriation area is where we charge many of the unexpected expenditures. The most significant unexpected expenditure (about \$15,000) in this area was for legal fees to deal with labor issues, grievances, investigations, etc.

Community Development Block Grant Fund:

The CDBG Fund is used to account for the specific financial resources used to improve the quality of the City. The CDBG Fund reflected an increase in fund balance related to current year activity of \$10,650. Fund balance for this fund was \$344,048 as of December 31, 2006.

Revolving Loan Fund:

The Revolving Loan Fund is used to loan local businesses money at low interest rates. The Revolving Loan Fund reflected an increase in fund balance related to current year activity of \$41,911. Fund balance for this fund was \$485,202 at year end.

Albion Trust Fund:

The Albion Trust Fund is used to account for funding for City improvements as a whole and for maintenance and upkeep of the Maple Grove Apartment Facility. The fund balance decreased as the result of current year activity by \$115,557. Fund balance for this fund was \$1,104,339 at year end.

Library Trust Fund:

The Library Trust Fund is used to account for the financial resources of the Albion Public Library to endow its future for the citizens of Albion. Fund balance for this fund was \$991,361 at year end, unchanged from the 2005 fund balance.

Water:

The City operates a water treatment plant and distribution system that serves the City and a small portion of the neighboring townships. In 2002 the City implemented a 5-year rate increase schedule for the water system. As a result of these rate changes, the water system in 2006 was able to cover all of its operating costs, including depreciation. Net assets for the water system increased by \$134,273 to a December 31, 2006 level of \$5,309,084. The water system had a cash balance of about \$979,372 at year end.

Sewer:

The City operates a wastewater treatment plant and collection system that serves the City and a small portion of a neighboring township. In 2004 the City approved a 3-year rate increase schedule for the sewer system. For several years, the sewer system has not been able to cover all of its operating costs, including depreciation. The new rate schedule is expected to correct this shortfall situation by the end of the third year of the phased in rate increases. Net assets for the sewer system decreased by \$51,869 to a December 31, 2006 level of \$4,757,902. The majority of these assets are invested in facilities and equipment. The sewer system had a cash balance of about \$522,665 at year end.

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2006

Capital Assets and Debt Administration

At the end of the year, the City had invested \$5,096,829 and \$9,371,038 (net of accumulated depreciation) for governmental and business-type capital assets respectively. Depreciation charges for the fiscal year totaled \$349,814 for the governmental activities and \$383,917 for the business-type activities. The following chart provides more detail on these capital assets.

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Component Units</u>	<u>Total</u>
Land and construction in progress	\$ 492,593	\$ 370,281	\$ 201,655	\$ 1,064,529
Infrastructure, net	2,156,168	-	-	2,156,168
Buildings and improvements, net	1,684,807	5,731,650	100,255	7,516,712
Vehicles and equipment, net	763,261	221,852	-	985,113
Sewer system, net	-	795,983	-	795,983
Water system, net	-	2,251,272	-	2,251,272
Capital assets, net	<u>\$ 5,096,829</u>	<u>\$ 9,371,038</u>	<u>\$ 301,910</u>	<u>\$ 14,769,777</u>

Long-term Debt:

As of December 31, 2006 the City had the following bond debt outstanding:

Primary Government

	<u>Jan. 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Dec. 31, 2006</u>
Governmental Activities				
General Obligation Bonds	\$ 1,235,000	\$ -	\$ 75,000	\$ 1,160,000
Transportation Bonds	20,000	-	20,000	-0-
Installment Purchase Agreement	471,478	50,000	90,372	431,106
EPA Liability	158,094	-	10,079	148,015
Loans Payable	43,640	-	15,869	27,771
Building Authority Loan	83,334	-	5,592	77,742
Land contract	88,100	277,000	27,494	337,606
Capital lease	-0-	54,710	14,985	39,725
Compensated Absences	504,369	224,744	249,087	480,026
	2,604,015	606,454	508,478	2,701,991
Business-type Activities				
Revenue Bonds	1,370,000	-	80,000	1,290,000
Capital Lease	10,411	-	10,411	-0-
Compensated Absences	208,966	73,274	49,074	233,166
	1,589,377	73,274	139,485	1,523,166
Total Primary Government	4,193,392	679,728	647,963	4,225,157
Component Unit				
General Obligation Bonds	180,000	-	60,000	120,000
Land Contract	48,851	-	2,929	45,922
Loans Payable	62,800	-	22,836	39,964
Total Reporting Entity	<u>\$ 4,485,043</u>	<u>\$ 679,728</u>	<u>\$ 733,728</u>	<u>\$ 4,431,043</u>

City of Albion

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2006

As of December 31, 2006 the City had total outstanding debt for governmental activities (including accumulated vacation and sick time) of \$2,701,991. For business-type activities the outstanding debt (including accumulated vacation and sick time) was \$1,523,166 as of December 31, 2006.

As a result of the significant cost for issuing bonds, the City for the past several years has used an installment purchase process to purchase land, buildings and equipment. These obligations are reflected in the chart showing the City's outstanding debt.

Economic Factors and Next Year's Budget

For several years the City has levied its maximum millage amount, authorized under Headlee, for operating purposes. This millage is currently 11.9736 and it is expected that the City will continue to levy this amount of millage in the future. In addition, the City has several special millages that have been approved by the voters.

- | | |
|-------------------------------------|--------------|
| a. Water plant bonds - currently at | 1.2 mills |
| b. Street reconstruction | 2.9937 mills |
| c. Public Safety | 1.00 mills |
| d. Recreation | 0.80 mills |

Also, the City levies 2.0 mills for solid waste under existing state statute. Thus, the current total City millage levy is 19.9680 mills. The current Public Safety and Recreation special millages expire at the end of 2006. However, the voters did approve a 3-year 1.5 mill special millage for Recreation beginning in 2007. An effort is also underway to seek a voter approved millage of 2.25 mills to fund the recently established Albion District Library. If this millage passes then current funding from the City's General Fund will no longer be needed.

State revenue sharing continues to be of concern. Over the last 3 years there has been a significant reduction in the amount of state revenue sharing received by the City. The prospect of an increase in funding in the next couple of years is not good.

The local City income tax has also experienced a significant reduction over the last 3 years. Improvements to this funding source are dependent upon improvements to the Michigan economy and an increase in the number of local jobs.

In the area of expenses, all four of the City's union contracts expire on December 31, 2007. Therefore the City could see some limited increases as a result of the re-negotiation of these contracts.

Just like other employers, the City continues to struggle with the significant increases in cost for medial insurance for its employees. Although changes have been made in the coverages provided, the City continues to expect to see double digit increases for the next few years.

The City continues to pursue grants to assist with capital projects, as well as activities that can spur economic development and job creation in the City. As a result of the special voted millage (the current 3.0 mill annual levy was approved in August 2005 to extend until 2010) for street reconstruction, the City will continue to have an active street reconstruction program each year.

The City has experienced no specific events that it believes will materially impact the finances of the City for the next few years. However, the continued lagging of the economy in Michigan, as well as the limitations on tax millage, will provide on-going challenges to the City to provide necessary services within existing resources.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the accountability for the money it receives. If there are questions about this report, or a need for additional information, contact the City Manager or the City Treasurer at (517) 629-5535.

BASIC FINANCIAL STATEMENTS

City of Albion

STATEMENT OF NET ASSETS

December 31, 2006

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 3,357,595	\$ 1,272,860	\$ 4,630,455	\$ 115,149
Investments	1,184,333	280,587	1,464,920	41,358
Receivables	1,095,399	484,687	1,580,086	50,323
Due from other governmental units	97,097	-	97,097	1
Prepays	90,811	15,150	105,961	575
Inventories	19,978	4,813	24,791	-
Total current assets	5,845,213	2,058,097	7,903,310	207,406
Noncurrent assets				
Cash and cash equivalents - restricted	-	229,177	229,177	-
Investments	968,558	20,071	988,629	-
Capital assets not being depreciated	492,593	370,281	862,874	201,655
Capital assets, net of accumulated depreciation	4,604,236	9,000,757	13,604,993	100,255
Total noncurrent assets	6,065,387	9,620,286	15,685,673	301,910
TOTAL ASSETS	11,910,600	11,678,383	23,588,983	509,316
LIABILITIES				
Current liabilities				
Accounts payable	96,312	68,313	164,625	12,334
Accrued liabilities	114,926	19,918	134,844	2,934
Accrued wages	85,945	-	85,945	-
Due to other governmental units	5	-	5	-
Accrued interest payable	26,827	-	26,827	1,830
Deferred revenue	538,049	-	538,049	6,445
Current portion of compensated absences	175,277	41,263	216,540	-
Current portion of long-term debt	246,755	85,000	331,755	85,977
Total current liabilities	1,284,096	214,494	1,498,590	109,520
Noncurrent liabilities				
Noncurrent portion of compensated absences	304,749	191,903	496,652	-
Noncurrent portion of long-term debt	1,975,210	1,205,000	3,180,210	119,909
Total noncurrent liabilities	2,279,959	1,396,903	3,676,862	119,909
TOTAL LIABILITIES	3,564,055	1,611,397	5,175,452	229,429
NET ASSETS				
Invested in capital assets, net of related debt	2,874,864	8,081,038	10,955,902	96,024
Restricted for:				
Debt service	40,769	-	40,769	-
Streets and highways	387,460	-	387,460	-
Unrestricted	5,043,452	1,985,948	7,029,400	183,863
TOTAL NET ASSETS	\$ 8,346,545	\$ 10,066,986	\$ 18,413,531	\$ 279,887

See accompanying notes to financial statements.

City of Albion

STATEMENT OF ACTIVITIES

Year Ended December 31, 2006

		Net (Expense) Revenue and Changes in Net Assets						
Functions/Programs	Expenses	Program Revenues			Primary Government			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 1,769,996	\$ 485,590	\$ 90,790	\$ -	\$ (1,193,616)	\$ -	\$ (1,193,616)	\$ -
Public safety	2,405,815	45,544	2,942	-	(2,357,329)	-	(2,357,329)	-
Public works	1,408,020	3,930	888,199	-	(515,891)	-	(515,891)	-
Health and welfare	90,112	19,662	-	-	(70,450)	-	(70,450)	-
Community and economic development	491,226	261,804	227,455	-	(1,967)	-	(1,967)	-
Recreation and cultural	388,525	13,559	11,509	-	(363,457)	-	(363,457)	-
Interest on long-term debt	98,409	-	-	-	(98,409)	-	(98,409)	-
Total governmental activities	6,652,103	830,089	1,220,895	-0-	(4,601,119)	-0-	(4,601,119)	-0-
Business-type activities								
Sewer system	1,305,746	996,168	-	208,980	-	(100,598)	(100,598)	-
Water system	814,828	895,290	-	-	-	80,462	80,462	-
Total business-type activities	2,120,574	1,891,458	-0-	208,980	-0-	(20,136)	(20,136)	-0-
Total primary government	<u>\$ 8,772,677</u>	<u>\$ 2,721,547</u>	<u>\$ 1,220,895</u>	<u>\$ 208,980</u>	(4,601,119)	(20,136)	(4,621,255)	-0-
Component units								
Economic Development Corporation	\$ 177,466	\$ 105,580	\$ 49,347	\$ (22,539)	-	-	-	(22,539)
Downtown Development Authority	150,033	-	114,614	(35,419)	-	-	-	(35,419)
Tax Increment Finance Authority	133,880	11,165	17,127	(105,588)	-	-	-	(105,588)
Total component units	<u>\$ 461,379</u>	<u>\$ 116,745</u>	<u>\$ 181,088</u>	<u>\$ (163,546)</u>	-0-	-0-	-0-	(163,546)
General revenues								
Property taxes					2,238,658	-	2,238,658	261,152
Income taxes					1,216,623	-	1,216,623	-
State shared revenue					1,274,408	-	1,274,408	-
Investment earnings					251,874	49,358	301,232	6,574
Miscellaneous					227,228	58,031	285,259	50,545
Transfers					4,849	(4,849)	-0-	-
Total general revenues and transfers					5,213,640	102,540	5,316,180	318,271
Change in net assets					612,521	82,404	694,925	154,725
Net assets, beginning of the year					7,734,024	9,984,582	17,718,606	125,162
Net assets, end of the year					<u>\$ 8,346,545</u>	<u>\$ 10,066,986</u>	<u>\$ 18,413,531</u>	<u>\$ 279,887</u>

See accompanying notes to financial statements.

City of Albion
GOVERNMENTAL FUNDS BALANCE SHEET
December 31, 2006

		Special	
	General	Community Development Block Grant	Revolving Loan
ASSETS			
Cash and cash equivalents	\$ 663,978	\$ 327,082	\$ 485,202
Investments	68,921	-	-
Receivables			
Accounts	296,306	2,518	-
Taxes	173,429	-	-
Loans	-	441,885	161,206
Due from other governmental units	5,149	-	-
Prepays	68,506	-	-
Inventories	-	-	-
TOTAL ASSETS	\$ 1,276,289	\$ 771,485	\$ 646,408
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 73,983	\$ -	\$ -
Accrued liabilities	91,529	-	-
Accrued wages	85,945	-	-
Due to other governmental units	-	-	-
Deferred revenue	42,562	427,437	161,206
TOTAL LIABILITIES	294,019	427,437	161,206
FUND BALANCES			
Reserved for			
Prepays	68,506	-	-
Park fence	16,748	-	-
Library activities	-	-	-
Perpetual care	-	-	-
Debt service	-	-	-
Unreserved - undesignated	897,016	344,048	485,202
TOTAL FUND BALANCES	982,270	344,048	485,202
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,276,289	\$ 771,485	\$ 646,408

See accompanying notes to financial statements.

Revenue	Permanent	Nonmajor	Total
Albion	Library	Governmental	Governmental
Trust	Trust	Funds	Funds
\$ 28,895	\$ -	\$ 1,715,768	\$ 3,220,925
1,075,444	991,361	17,165	2,152,891
-	-	5,962	304,786
-	-	14,093	187,522
-	-	-	603,091
-	-	91,948	97,097
-	-	14,705	83,211
-	-	9,263	9,263
<u>\$ 1,104,339</u>	<u>\$ 991,361</u>	<u>\$ 1,868,904</u>	<u>\$ 6,658,786</u>
\$ -	\$ -	\$ 18,556	\$ 92,539
-	-	23,397	114,926
-	-	-	85,945
-	-	5	5
-	-	16,280	647,485
-0-	-0-	58,238	940,900
-	-	14,705	83,211
-	-	-	16,748
-	991,361	176,840	1,168,201
-	-	383,049	383,049
-	-	67,596	67,596
1,104,339	-	1,168,476	3,999,081
<u>1,104,339</u>	<u>991,361</u>	<u>1,810,666</u>	<u>5,717,886</u>
<u>\$ 1,104,339</u>	<u>\$ 991,361</u>	<u>\$ 1,868,904</u>	<u>\$ 6,658,786</u>

City of Albion

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

December 31, 2006

Total fund balances - governmental funds \$ 5,717,886

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 8,982,482	
Accumulated depreciation is	<u>(3,885,653)</u>	
Capital assets, net		5,096,829

Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Funds are included in the governmental activities in the Government-wide Statement of Net Assets.

Net assets of governmental activities accounted for in Internal Service Funds	497,817	
Net capital assets of Internal Service Funds included in total capital assets above	(349,944)	
Net compensated absences of Internal Service Funds included in total compensated absences below	<u>3,339</u>	
		151,212

Long-term receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds. These consist of:

Deferred revenue		109,436
------------------	--	---------

Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds Balance Sheet. Long-term liabilities at year-end consist of:

Direct City obligations	2,221,965	
Accrued interest payable	26,827	
Compensated absences	<u>480,026</u>	
		<u>(2,728,818)</u>

Net assets of governmental activities \$ 8,346,545

See accompanying notes to financial statements.

City of Albion

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended December 31, 2006

		Special	
	General	Community Development Block Grant	Revolving Loan
REVENUES			
Taxes	\$ 2,819,750	\$ -	\$ -
Licenses and permits	53,035	-	-
Intergovernmental	1,358,395	-	-
Charges for services	339,255	-	21,241
Fines and forfeits	73,381	-	-
Interest and rents	85,408	10,675	24,279
Other	199,387	-	-
TOTAL REVENUES	4,928,611	10,675	45,520
EXPENDITURES			
Current			
General government	998,694	-	-
Public safety	2,302,907	-	-
Public works	234,112	-	-
Health and welfare	38,401	-	-
Community and economic development	71,460	25	3,609
Recreation and cultural	369,359	-	-
Other	193,181	-	-
Debt service	31,856	-	-
Capital outlay	236,695	-	-
TOTAL EXPENDITURES	4,476,665	25	3,609
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	451,946	10,650	41,911
OTHER FINANCING SOURCES (USES)			
Debt proceeds	104,710	-	-
Transfers in	80,800	-	-
Transfers out	(300,617)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(115,107)	-0-	-0-
NET CHANGE IN FUND BALANCES	336,839	10,650	41,911
Fund balances, beginning of year	645,431	333,398	443,291
Fund balances, end of year	\$ 982,270	\$ 344,048	\$ 485,202

See accompanying notes to financial statements.

Revenue	Permanent		
Albion Trust	Library Trust	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 775,129	\$ 3,594,879
-	-	-	53,035
-	-	1,127,993	2,486,388
-	-	44,284	404,780
-	-	56,805	130,186
44,998	40,448	290,580	496,388
245	-	26,223	225,855
45,243	40,448	2,321,014	7,391,511
-	-	432,908	1,431,602
-	-	15,860	2,318,767
-	-	1,034,833	1,268,945
-	-	-	38,401
80,000	-	316,102	471,196
-	-	-	369,359
-	-	-	193,181
-	-	322,945	354,801
-	-	465,596	702,291
80,000	-0-	2,588,244	7,148,543
(34,757)	40,448	(267,230)	242,968
-	-	277,000	381,710
-	-	817,293	898,093
(80,800)	(40,448)	(468,379)	(890,244)
(80,800)	(40,448)	625,914	389,559
(115,557)	-0-	358,684	632,527
1,219,896	991,361	1,451,982	5,085,359
\$ 1,104,339	\$ 991,361	\$ 1,810,666	\$ 5,717,886

City of Albion

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2006

Net change in fund balances - total governmental funds \$ 632,527

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 708,802	
Depreciation expense	<u>(349,814)</u>	
Excess of capital outlay over depreciation expense		358,988

Internal service funds are used by management to charge the costs of certain activities to individual funds.

(Decrease) in net assets of Internal Service Funds	(76,152)	
Capital outlay of the Internal Service Fund included in the total above	(155,332)	
Depreciation expense of Internal Service Funds included in the total above	84,942	
Increase in compensated absences of Internal Service Funds included in the total below	<u>259</u>	
		(146,283)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Deferred revenue		(131,736)
------------------	--	-----------

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Debt proceeds	(381,710)	
Long-term debt principal retirements	<u>259,391</u>	(122,319)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) in accrued interest payable	(2,999)	
Decrease in accrued compensated absences	<u>24,343</u>	
		<u>21,344</u>

Change in net assets of governmental activities \$ 612,521

See accompanying notes to financial statements.

City of Albion

Proprietary Funds

STATEMENT OF NET ASSETS

December 31, 2006

	Business-type Activities			Governmental Activities Internal Service
	Sewer	Water	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 522,457	\$ 750,403	\$ 1,272,860	\$ 136,670
Investments	280,587	-	280,587	-
Accounts receivable	259,267	225,420	484,687	-
Inventories	2,963	1,850	4,813	10,715
Prepays	9,950	5,200	15,150	7,600
Total current assets	1,075,224	982,873	2,058,097	154,985
Noncurrent assets				
Cash and cash equivalents - restricted	208	228,969	229,177	-
Investments	-	20,071	20,071	-
Capital assets not being depreciated	276,581	93,700	370,281	-
Capital assets, net of accumulated depreciation	3,604,402	5,396,355	9,000,757	349,944
Total noncurrent assets	3,881,191	5,739,095	9,620,286	349,944
TOTAL ASSETS	4,956,415	6,721,968	11,678,383	504,929
LIABILITIES				
Current liabilities				
Accounts payable	52,732	15,581	68,313	3,773
Accrued liabilities	1,067	18,851	19,918	-
Current portion of compensated absences	25,530	15,733	41,263	668
Current portion of long-term debt	-	85,000	85,000	-
Total current liabilities	79,329	135,165	214,494	4,441
Noncurrent liabilities				
Noncurrent portion of compensated absences	119,184	72,719	191,903	2,671
Noncurrent portion of long-term debt	-	1,205,000	1,205,000	-
Total noncurrent liabilities	119,184	1,277,719	1,396,903	2,671
TOTAL LIABILITIES	198,513	1,412,884	1,611,397	7,112
NET ASSETS				
Invested in capital assets, net of related debt	3,880,983	4,200,055	8,081,038	349,944
Unrestricted	876,919	1,109,029	1,985,948	147,873
TOTAL NET ASSETS	\$ 4,757,902	\$ 5,309,084	\$ 10,066,986	\$ 497,817

See accompanying notes to financial statements.

City of Albion

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended December 31, 2006

	Business-type Activities			Governmental Activities
	Sewer	Water	Total	Internal Service
OPERATING REVENUES				
Charges for services	\$ 996,168	\$ 895,290	\$ 1,891,458	\$ 198,413
Other	27,777	30,254	58,031	386
TOTAL OPERATING REVENUES	1,023,945	925,544	1,949,489	198,799
OPERATING EXPENSES				
Salaries and wages	406,846	212,998	619,844	49,048
Fringe benefits	170,362	83,557	253,919	23,623
Contractual services	205,854	38,519	244,373	2,191
Supplies	115,151	83,952	199,103	66,640
Utilities	128,646	66,492	195,138	17,266
Insurance and bonds	21,181	10,977	32,158	18,476
Administrative services	42,458	42,458	84,916	12,737
Building and equipment rental	-	6,005	6,005	-
Other	6,635	5,524	12,159	1,272
Depreciation	208,487	175,430	383,917	84,942
TOTAL OPERATING EXPENSES	1,305,620	725,912	2,031,532	276,195
OPERATING INCOME (LOSS)	(281,675)	199,632	(82,043)	(77,396)
NONOPERATING REVENUES (EXPENSES)				
Interest earned	23,685	25,673	49,358	4,244
Interest expense and fees	(126)	(88,916)	(89,042)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	23,559	(63,243)	(39,684)	4,244
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(258,116)	136,389	(121,727)	(73,152)
CAPITAL CONTRIBUTIONS				
Intergovernmental	208,980	-	208,980	-
TRANSFERS OUT	(2,733)	(2,116)	(4,849)	(3,000)
CHANGE IN NET ASSETS	(51,869)	134,273	82,404	(76,152)
Net assets, beginning of year	4,809,771	5,174,811	9,984,582	573,969
Net assets, end of year	\$ 4,757,902	\$ 5,309,084	\$ 10,066,986	\$ 497,817

See accompanying notes to financial statements.

City of Albion

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended December 31, 2006

	Business-type Activities			Governmental Activities
	Sewer	Water	Total	Internal Service
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	\$ 1,019,036	\$ 913,345	\$ 1,932,381	\$ 198,682
Cash paid to suppliers	(576,269)	(249,289)	(825,558)	(122,912)
Cash paid for employee benefits	(562,429)	(270,407)	(832,836)	(72,412)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(119,662)	393,649	273,987	3,358
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Intergovernmental revenue	208,980	-	208,980	-
Payments of borrowing	(10,411)	(80,000)	(90,411)	-
Purchase of capital assets	(45,131)	(37,850)	(82,981)	(155,332)
Interest expense and fees	(126)	(88,916)	(89,042)	-
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	153,312	(206,766)	(53,454)	(155,332)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers out	(2,733)	(2,116)	(4,849)	(3,000)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest earned	23,685	25,673	49,358	4,244
Purchase of investments	(10,251)	(740)	(10,991)	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	13,434	24,933	38,367	4,244
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	44,351	209,700	254,051	(150,730)
Cash and cash equivalents, beginning of year	478,314	769,672	1,247,986	287,400
Cash and cash equivalents, end of year	<u>\$ 522,665</u>	<u>\$ 979,372</u>	<u>\$ 1,502,037</u>	<u>\$ 136,670</u>

City of Albion

Proprietary Funds

STATEMENT OF CASH FLOWS - CONTINUED

Year Ended December 31, 2005

	<u>Business-type Activities</u>			<u>Governmental Activities</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Internal Service</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ (281,675)	\$ 199,632	\$ (82,043)	\$ (77,396)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation	208,487	175,430	383,917	84,942
(Increase) in accounts receivable	(4,730)	(12,026)	(16,756)	-
(Increase) in prepaids	(179)	(173)	(352)	(117)
(Increase) decrease in inventories	(2,203)	300	(1,903)	(6,934)
Increase (decrease) in accounts payable	(54,141)	4,338	(49,803)	2,604
Increase in compensated absences	14,909	9,291	24,200	259
Increase (decrease) in accrued liabilities	(130)	16,857	16,727	-
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	 <u>\$ (119,662)</u>	 <u>\$ 393,649</u>	 <u>\$ 273,987</u>	 <u>\$ 3,358</u>

See accompanying notes to financial statements.

City of Albion

Fiduciary Funds

STATEMENT OF FIDUCIARY NET ASSETS

December 31, 2006

	Agency	Private Purpose Trusts
ASSETS		
Cash and cash equivalents	\$ 581,223	\$ 944,060
Investments	-	15,785,659
Interest receivable	-	62,549
TOTAL ASSETS	<u>\$ 581,223</u>	<u>\$ 16,792,268</u>
LIABILITIES		
Due to State	\$ 35,634	\$ -
Due to County	64,457	-
Due to Schools	360,426	-
Due to others	120,706	-
TOTAL LIABILITIES	<u>\$ 581,223</u>	<u>-0-</u>
NET ASSETS		
Held in trust for private purposes		<u>\$ 16,792,268</u>

See accompanying notes to financial statements.

City of Albion

Fiduciary Funds

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year Ended December 31, 2006

	<u>Private Purpose Trusts</u>
ADDITIONS	
Investment income	
Interest and dividends	\$ 575,849
Net decrease in fair value of investments	914,195
Gain on sales of investments	982,910
Less investment expenses	<u>(18,217)</u>
Net investment income	2,454,737
Contributions	
Employer	<u>50,039</u>
TOTAL ADDITIONS	2,504,776
DEDUCTIONS	
Benefit payments	604,116
Administrative expenses	<u>119,011</u>
TOTAL DEDUCTIONS	<u>723,127</u>
CHANGE IN NET ASSETS	1,781,649
Net assets, beginning of year	<u>15,010,619</u>
Net assets, end of year	<u><u>\$ 16,792,268</u></u>

See accompanying notes to financial statements.

City of Albion

Component Units

COMBINING STATEMENT OF NET ASSETS

December 31, 2006

	Economic Development Corporation	Downtown Development Authority	Tax Increment Finance Authority	Total Component Units
ASSETS				
Current assets				
Cash and cash equivalents	\$ 7,618	\$ 125,930	\$ (18,399)	\$ 115,149
Investments	-	-	41,358	41,358
Receivables	7,450	15,173	27,700	50,323
Due from other governmental units	-	-	1	1
Prepays	-	500	75	575
Total current assets	15,068	141,603	50,735	207,406
Noncurrent assets				
Capital assets not being depreciated	41,655	-	160,000	201,655
Capital assets, net of accumulated depreciation	16,000	60,855	23,400	100,255
Total noncurrent assets	57,655	60,855	183,400	301,910
TOTAL ASSETS	72,723	202,458	234,135	509,316
LIABILITIES				
Current liabilities				
Accounts payable	-	11,569	765	12,334
Accrued liabilities	-	87	2,847	2,934
Accrued interest payable	-	1,830	-	1,830
Deferred revenue	6,445	-	-	6,445
Current portion of long-term debt	3,141	60,000	22,836	85,977
Total current liabilities	9,586	73,486	26,448	109,520
Noncurrent liabilities				
Noncurrent portion of long-term debt	42,781	60,000	17,128	119,909
TOTAL LIABILITIES	52,367	133,486	43,576	229,429
NET ASSETS				
Invested in capital assets, net of related debt	11,733	(59,145)	143,436	96,024
Unrestricted	8,623	128,117	47,123	183,863
TOTAL NET ASSETS	\$ 20,356	\$ 68,972	\$ 190,559	\$ 279,887

See accompanying notes to financial statements.

City of Albion

Component Units

STATEMENT OF ACTIVITIES

Year Ended December 31, 2006

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Economic Development Corporation	\$ 177,466	\$ 105,580	\$ 49,347	\$ (22,539)
Downtown Development Authority	150,033	-	114,614	(35,419)
Tax Increment Finance Authority	133,880	11,165	17,127	(105,588)
TOTALS	\$ 461,379	\$ 116,745	\$ 181,088	(163,546)
General revenues				
Property taxes				261,152
Investment earnings				6,574
Miscellaneous				50,545
Total general revenues				318,271
CHANGE IN NET ASSETS				154,725
Net assets, beginning of year				125,162
Net assets, end of year				\$ 279,887

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Albion is located in Calhoun County, Michigan and has a population of approximately 9,144. The City of Albion operates with a City Manager/Council form of government and provides services to its residents in many areas including general government, law enforcement, highways and streets, human services, and utilities services.

The City has six (6) City Council members who are elected for overlapping four (4) year terms. The Council elects one (1) of its members to serve as Mayor Pro-Tem. A Mayor is elected at large for a two (2) year term. The Council appoints the City Manager and City Attorney.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to city governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, *The Financial Reporting Entity* (as amended by GASB Statement 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of the City of Albion (primary government) and its component units. Blended component units, although legally separate entities, are, in substance, part of the City's operations and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

2. Blended Component Units

The Albion Building Authority is a five (5) member board governed by the City Council. One member of the board must be a resident of the Maple Grove Apartments. Its purpose under State Statute is to manage, maintain, develop, and acquire property for the City. It is reported in the Special Revenue and Debt Service fund categories.

The Library is governed by a five (5) member board, who are all appointed by the Mayor and City Council. Its purpose is to provide access to books, periodicals, and other printed media to the residents of the City. It is reported as a Special Revenue Fund.

The Albion Trust is governed by a three (3) member board appointed by current board members or by the City. Its purposes include construction of senior citizen facilities, supporting the debt of the Senior Citizen Facility, and other betterments to the City. It is reported in the Special Revenue Fund category.

The Albion Public Safety Officers' Pension Trust is governed by a five (5) member pension board that includes two (2) individuals chosen by the Mayor and the City Council. Its purpose is to operate the retirement system. It is reported in the Fiduciary Fund category.

3. Discretely Presented Component Units

The component units are reported in a separate column to emphasize that, while legally separate, the City remains financially accountable for these entities or the nature and significance of the relationship between the entities and the City is such that exclusion of the entities would render the financial statements misleading or incomplete. The financial statements contain the following discretely presented component units:

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Discretely Presented Component Units - continued

- a. Economic Development Corporation - The Economic Development Corporation (EDC) was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The EDC is governed jointly by a nine (9) member board with the Tax Increment Finance Authority.
- b. Downtown Development Authority - The Downtown Development Authority (DDA) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA's governing body, which consists of 9-12 members, is selected by the Mayor and City Council. In addition, the DDA's budget is subject to approval by the City Council.
- c. Tax Increment Finance Authority - The Tax Increment Finance Authority (TIFA) was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The TIFA is governed jointly by a nine (9) member board with the Economic Development Corporation. The TIFA also acts as an agent for the Revolving Loan Fund, which is included as a Special Revenue Fund of the City.

4. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government and its component units as a whole. All nonfiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and its component units and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the City's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual enterprise funds are reported as separate columns in the fund financial statements.

The major funds of the City are:

- a. The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Presentation - continued

- b. The Community Development Block Grant Fund is used to account for the financial resources used to improve the quality of the community.
- c. The Revolving Loan Fund is used to loan money to local businesses at low interest rates.
- d. The Albion Trust Fund is used to provide grant dollars for City improvements as a whole and to set dollars aside for the Maple Grove Apartment Facility.
- e. The Library Trust Fund is used to account for the financial resources of the Albion Public Library to endow its future for the citizens of Albion.
- f. The Sewer Fund is used to account for the operations required to provide sewer services to the general public. The costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- g. The Water Fund is used to account for the operations required to provide water services to the general public. The costs (expenses, including depreciation) are financed or recovered primarily through user charges.

5. Measurement Focus

The government-wide, proprietary, and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for Agency Funds since assets equal liabilities.

6. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental and similar trust funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Basis of Accounting - continued

All proprietary and similar trust funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with, or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If/when, both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

7. Budgets and Budgetary Accounting

The General and major Special Revenue Fund budgets shown as required supplementary information were prepared on the same modified accrual basis used to reflect actual results. The City employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. Six weeks prior to December 31, the City Manager submits to City Council the proposed operating budgets for the fiscal year commencing the following January 1. The operating budgets include proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. On or before the second regular council meeting in December, the budget is legally enacted through passage of a resolution.
- d. The budget is legally adopted at the department level for the General Fund and total expenditure level for the Special Revenue Funds; however, they are maintained at the account level for control purposes.
- e. The City does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at December 31 are not carried forward to the following fiscal year.
- f. Budgeted amounts are reported as originally adopted or amended by the City Council during the year. Individual amendments were appropriately approved by the City Council as required.

8. Cash and Cash Equivalents

Cash and cash equivalents consist of checking, savings, money market, certificates of deposit with a maturity from date of purchase of 90 days or less, and pooled investment fund accounts. The cash equivalents are recorded at cost, which approximates market value.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Investments

Investments consist of certificates of deposit and U.S. Government Securities with original maturities of greater than 90 days. Investments are recorded at market value in accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

10. Due from Other Governmental Units

Due from other governmental units consists of amounts due from the State of Michigan and amounts due from component units for various payments and grants and accounts receivable for charges for services provided to local governmental units.

11. Receivables

Receivables consist of amounts due related to charges for services, interest receivable, and other amounts owed to the City at year-end.

12. Property Tax

The City of Albion bills and collects its own property taxes and also taxes for other governmental units. The City's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph:

Property taxes are levied by the City of Albion on July 1 and are payable without penalty through August 10. The July 1 levy is composed of the City's millage, delinquent assessments, and State Education Tax. All real property taxes not paid to the City by February 28 are turned over to the Calhoun County Treasurer for collection. The Calhoun County Treasurer purchases the receivables of all taxing districts on any delinquent real property taxes. Delinquent personal property taxes receivable are retained by the City for subsequent collection.

The City is permitted by charter to levy taxes up to 12.50 mills (\$12.50 per \$1,000 of taxable valuation) for general governmental services other than the payment of Debt Service Fund expenditures. For the year ended December 31, 2006, the City levied 11.9736 mills per \$1,000 of taxable valuation for general governmental services. In addition, the City levied 2.9937 mills for street maintenance, 2.0000 mills for solid waste services, 1.2000 mills for debt service payments, 1.0000 mills for public safety services, and 0.8000 mills for recreational services. The total taxable value for the 2006 levy for property within the City was \$115,599,030.

13. Income Tax Revenues

In accordance with GASB Statement No. 22, *Accounting for Taxpayer - Assessed Tax Revenues in Governmental Funds*, the City has recognized taxpayer-assessed taxes, net of estimated refunds, as revenue in the accounting period in which they become susceptible to accrual (i.e., measurable and available to finance expenditures of the fiscal period). The City has calculated this amount based on the income tax collections made within 60 days after year end that relate to the prior years. Estimated refunds of these amounts are considered to be immaterial.

14. Inventories

Inventories are valued at cost. Cost is determined using the first-in, first-out method. Inventory consists of expendable supplies held for consumption. Inventories are capitalized under the consumption method, whereby expenditures are capitalized as inventory until used. Reported inventories in governmental funds are equally offset by a fund balance reserve, which indicates that they do not constitute "available expendable resources" even though they are a component of net current assets.

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

15. Accrued Compensated Absences

City employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for accumulated vacation days according to contract or personnel policies. In the event of termination by retirement or death, an employee is paid for accumulated sick days according to contract or personnel policies.

16. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

The Internal Service Fund (Equipment Pool) records charges for services provided to various City departments and funds as operating revenue. All City funds record these payments as operating expenditures/expenses.

17. Capital Assets

Capital assets include buildings and equipment and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. Capital assets are those with an initial individual cost of \$5,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and improvements	5 - 50 years
Equipment	3 - 50 years
Infrastructure - streets and bridges	10 - 30 years
Vehicles	5 - 15 years
Sewer system	20 - 50 years
Water system	10 - 50 years

18. Long-term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

19. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

The City deposits consist of a common checking account and various savings, money market, checking, and pooled investment fund accounts maintained by individual funds and are reported as cash, cash equivalents, and investments in the financial statements.

In accordance with Michigan Compiled Laws, the City is authorized to invest in the following investment vehicles:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
- c. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d. The United States government or federal agency obligations repurchase agreements.
- e. Bankers' acceptances of United States banks.
- f. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143 to secure deposits of State funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

As of December 31, 2006, the carrying amounts and bank balances for each type of bank account are as follows:

<u>ACCOUNT TYPE</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
PRIMARY GOVERNMENT		
Checking and savings	\$ 4,163,080	\$ 4,081,213
Certificates of deposit	<u>1,378,106</u>	<u>1,378,106</u>
Total Primary Government	5,541,186	5,459,319
FIDUCIARY FUNDS		
Checking	1,525,283	1,525,283

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Deposits - continued

<u>ACCOUNT TYPE</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
COMPONENT UNITS		
Checking and savings	\$ 64,189	\$ 64,189
Certificates of deposit	<u>41,358</u>	<u>41,358</u>
Total Component Units	<u>105,547</u>	<u>105,547</u>
TOTAL REPORTING ENTITY	<u>\$ 7,172,016</u>	<u>\$ 7,090,149</u>

The primary government and component units' cash and cash equivalents captions on the basic financial statements include \$2,035 and \$50, respectively, of imprest cash.

Deposits of the City are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the City. As of December 31, 2006, the City accounts were insured by the FDIC for \$324,435 and the amount of \$6,765,714 was uninsured and uncollateralized.

As of December 31, 2006, the carrying amounts and market values for each investment are as follows:

Investments

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>S & P Rating</u>	<u>Weighted Average Maturity</u>
PRIMARY GOVERNMENT				
Federal Home Loan Bank	\$ 49,438	\$ 49,438	AAA	348 days
Federal National Mortgage Association	240,256	240,256	AAA	882 days
Federal Home Loan Marketing Association	418,426	418,426	AAA	1,058 days
Financing Corporation	114,938	114,938	AAA	425 days
Resolution Funding Corporation	57,658	57,658	AAA	927 days
Medium Term Note	194,728	194,728	AAA	380 days
UBS Bank Money Funds	28,896	28,896	N/A	N/A
Uncategorized pooled investment funds	228,969	228,969	N/A	N/A
Uncategorized pooled investment funds	292,513	292,513	N/A	N/A
Uncategorized pooled investment funds	<u>144,138</u>	<u>144,138</u>	N/A	N/A
Total primary government	1,769,960	1,769,960		
FIDUCIARY FUNDS				
U.S. Government Securities	2,563,750	2,563,750	AAA	7 years
Corporate Bonds and Notes	3,271,352	3,271,352	AAA	40 days
Common Equity Securities	<u>9,920,557</u>	<u>9,920,557</u>	AAA	1 year
Total fiduciary funds	15,785,659	15,785,659		
COMPONENT UNITS				
Public Funds Investment Trust	15,278	15,278	N/A	N/A
Uncategorized pooled investment funds	<u>35,632</u>	<u>35,632</u>	N/A	N/A
Total component units	<u>50,910</u>	<u>50,910</u>		
TOTAL REPORTING ENTITY	<u>\$17,606,529</u>	<u>\$17,605,744</u>		

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**Credit Risk**

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of December 31, 2006, rating information on the City's investments is presented above.

Interest rate risk

The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the City's cash requirements.

Concentration of credit risk

The City will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The City will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized by the Commission and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the City will do business in accordance with Commission approved policy.

The cash, cash equivalents, and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of December 31, 2006:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$ 4,630,455	\$ 115,149	\$ 1,525,283	\$ 6,270,887
Cash and cash equivalents - restricted	229,177	-	-	229,177
Investments	<u>2,453,549</u>	<u>41,358</u>	<u>15,785,659</u>	<u>18,280,566</u>
	<u>\$ 7,313,181</u>	<u>\$ 156,507</u>	<u>\$17,310,942</u>	<u>\$24,780,630</u>

NOTE C: CASH AND CASH EQUIVALENTS - RESTRICTED

The following summarizes the restricted cash and cash equivalents as of December 31, 2006:

	<u>Bond Reserve</u>
Enterprise Funds	<u>\$ 229,177</u>

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE D: POOLING OF CASH AND INVESTMENTS

The City's balance sheet reflects cash and investments with a negative balance. These amounts do not represent actual bank overdrafts; rather, they merely reflect that specific funds have disbursed amounts from the City's common checking account in excess of the amount recorded as an asset. In total, the bank account has a positive balance.

Cash disbursed in excess of amounts recorded as assets as of December 31, 2006, are as follows:

<u>Fund</u>	<u>Negative Pooled Cash</u>	<u>Nonpooled Cash and Cash Equivalents</u>	<u>Financial Statements</u>
COMPONENT UNIT			
Tax Increment Finance Authority	\$(54,080)	\$ 35,681	\$(18,399)

NOTE E: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds, business type funds, and the component unit have been eliminated.

Transfers to General Fund from:	
Albion Trust Fund	<u>\$ 80,800</u>
Transfers to nonmajor governmental funds from:	
General Fund	\$ 300,617
Nonmajor governmental funds	468,379
Library Trust Fund	40,448
Sewer Fund	2,733
Water Fund	2,116
Internal service funds	<u>3,000</u>
	<u>\$ 817,293</u>
Transfers to Component Unit Funds from:	
Other component unit funds	<u>\$ 71,420</u>

NOTE F: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 was as follows:

Primary Government

	<u>Balance Jan. 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Dec. 31, 2006</u>
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 420,906	\$ 35,000	\$ -	\$ 455,906
Construction in progress	<u>-</u>	<u>36,687</u>	<u>-</u>	<u>36,687</u>
Subtotal	420,906	71,687	-0-	492,593

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE F: CAPITAL ASSETS - CONTINUED

Primary Government - continued

	Balance Jan. 1, 2006	Additions	Deletions	Balance Dec. 31, 2006
Governmental activities - continued				
Capital assets being depreciated				
Buildings and improvements	\$ 3,243,940	\$ 299,027	\$ -	\$ 3,542,967
Infrastructure	2,522,000	-	-	2,522,000
Equipment and furniture	698,640	161,066	-	859,706
Vehicles	<u>1,388,194</u>	<u>177,022</u>	<u>-</u>	<u>1,565,216</u>
Subtotal	7,852,774	637,115	-0-	8,489,889
Less accumulated depreciation for:				
Buildings and improvements	(1,789,540)	(68,620)	-	(1,858,160)
Infrastructure	(276,899)	(88,933)	-	(365,832)
Equipment and furniture	(476,404)	(68,839)	-	(545,243)
Vehicles	<u>(992,996)</u>	<u>(123,422)</u>	<u>-</u>	<u>(1,116,418)</u>
Subtotal	<u>(3,535,839)</u>	<u>(349,814)</u>	<u>-0-</u>	<u>(3,885,653)</u>
Net capital assets being depreciated	<u>4,316,935</u>	<u>287,301</u>	<u>-0-</u>	<u>4,604,236</u>
Capital assets, net	<u>\$ 4,737,841</u>	<u>\$ 358,988</u>	<u>\$ -0-</u>	<u>\$ 5,096,829</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 177,670
Public safety	5,912
Public works	98,507
Health and welfare	49,779
Community and economic development	6,507
Recreation and cultural	<u>11,439</u>
Total depreciation expense	<u>\$ 349,814</u>

	Balance Jan. 1, 2006	Additions	Deletions	Balance Dec. 31, 2006
Business-type activities				
Capital assets not being depreciated				
Land	\$ 93,700	\$ -	\$ -	\$ 93,700
Construction in progress	<u>276,581</u>	<u>-</u>	<u>-</u>	<u>276,581</u>
	370,281	-0-	-0-	370,281
Capital assets being depreciated				
Buildings and improvements	9,740,075	-	-	9,740,075
Equipment	883,453	-	-	883,453
Water system	4,170,730	19,937	-	4,190,667
Sewer system	1,339,683	8,937	-	1,348,620
Vehicles	<u>514,689</u>	<u>54,107</u>	<u>-</u>	<u>568,796</u>
Subtotal	16,648,630	82,981	-0-	16,731,611

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE F: CAPITAL ASSETS - CONTINUED

Primary Government - continued

	Balance Jan. 1, 2006	Additions	Deletions	Balance Dec. 31, 2006
Business-type activities - continued				
Less accumulated depreciation for:				
Buildings and improvements	\$(3,810,342)	\$(198,083)	\$ -	\$(4,008,425)
Equipment	(757,366)	(40,223)	-	(797,589)
Water system	(1,852,311)	(87,084)	-	(1,939,395)
Sewer system	(531,348)	(21,289)	-	(552,637)
Vehicles	(395,570)	(37,238)	-	(432,808)
Subtotal	<u>(7,346,937)</u>	<u>(383,917)</u>	<u>-0-</u>	<u>(7,730,854)</u>
Net capital assets being depreciated	<u>9,301,693</u>	<u>(300,936)</u>	<u>-0-</u>	<u>9,000,757</u>
Capital assets, net	<u>\$ 9,671,974</u>	<u>\$(300,936)</u>	<u>\$ -0-</u>	<u>\$ 9,371,038</u>

Component Units

Component unit - EDC				
Capital assets not being depreciated:				
Land	\$ 41,655	\$ -	\$ -	\$ 41,655
Capital assets being depreciated				
Buildings	20,000	-	-	20,000
Less accumulated depreciation for				
Buildings	<u>(3,200)</u>	<u>(800)</u>	<u>-</u>	<u>(4,000)</u>
Net capital assets being depreciated	<u>16,800</u>	<u>(800)</u>	<u>-0-</u>	<u>16,000</u>
Capital assets, net	<u>\$ 58,455</u>	<u>\$(800)</u>	<u>\$ -0-</u>	<u>\$ 57,655</u>
Component unit - TIFA				
Capital assets not being depreciated:				
Land	\$ 160,000	\$ -	\$ -	\$ 160,000
Capital assets being depreciated				
Buildings	45,000	-	-	45,000
Less accumulated depreciation for				
Buildings	<u>(19,800)</u>	<u>(1,800)</u>	<u>-</u>	<u>(21,600)</u>
Net capital assets being depreciated	<u>25,200</u>	<u>(1,800)</u>	<u>-0-</u>	<u>23,400</u>
Capital assets, net	<u>\$ 185,200</u>	<u>\$(1,800)</u>	<u>\$ -0-</u>	<u>\$ 183,400</u>
Component unit - DDA				
Capital assets being depreciated				
Buildings	\$ -	\$ 61,588	\$ -	\$ 61,588
Less accumulated depreciation for				
Buildings	<u>-</u>	<u>(733)</u>	<u>-</u>	<u>(733)</u>
Capital assets, net	<u>\$ -0-</u>	<u>\$ 60,855</u>	<u>\$ -0-</u>	<u>\$ 60,855</u>

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE G: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the City for the year ended December 31, 2006.

	Balance Jan. 1, 2006	Additions	Reductions	Balance Dec. 31, 2006	Amounts Due Within One Year
PRIMARY GOVERNMENT					
Governmental activities					
Transportation Bonds	\$ 20,000	\$ -	\$ 20,000	\$ -0-	\$ -
1997 General Obligation Bonds	1,235,000	-	75,000	1,160,000	80,000
Installment purchase agreements	471,478	50,000	90,372	431,106	96,905
EPA landfill liability	158,094	-	10,079	148,015	9,420
CDBG loan	43,640	-	15,869	27,771	15,869
Building Authority loan	83,334	-	5,592	77,742	6,720
Land contracts	88,100	277,000	27,494	337,606	25,418
Capital lease	-	54,710	14,985	39,725	12,423
Accumulated compensated absences	<u>504,369</u>	<u>224,744</u>	<u>249,087</u>	<u>480,026</u>	<u>175,277</u>
	2,604,015	606,454	508,478	2,701,991	422,032
Business-type activities					
Revenue Bonds	1,370,000	-	80,000	1,290,000	85,000
Capital lease	10,411	-	10,411	-0-	-
Accumulated compensated absences	<u>208,966</u>	<u>73,274</u>	<u>49,074</u>	<u>233,166</u>	<u>41,263</u>
	<u>1,589,377</u>	<u>73,274</u>	<u>139,485</u>	<u>1,523,166</u>	<u>126,263</u>
TOTAL PRIMARY GOVERNMENT	4,193,392	679,728	647,963	4,225,157	548,295
COMPONENT UNITS					
Economic Development Corporation					
Land contract	48,851	-	2,929	45,922	3,141
Downtown Development Authority					
Revenue Bonds	180,000	-	60,000	120,000	60,000
Tax Increment Finance Authority					
CDBG loan	<u>62,800</u>	<u>-</u>	<u>22,836</u>	<u>39,964</u>	<u>22,836</u>
TOTAL COMPONENT UNITS	<u>291,651</u>	<u>-0-</u>	<u>85,765</u>	<u>205,886</u>	<u>85,977</u>
TOTAL REPORTING ENTITY	<u>\$ 4,485,043</u>	<u>\$ 679,728</u>	<u>\$ 733,728</u>	<u>\$ 4,431,043</u>	<u>\$ 635,929</u>

Significant details regarding outstanding long-term debt (including current portion) are presented below:

PRIMARY GOVERNMENT

General Obligation Unlimited Tax Bonds Payable

\$1,700,000 General Obligation Unlimited Tax Bonds Series 1997 dated June 1, 1997, due in annual installments ranging from \$80,000 to \$140,000 through October 1, 2017, with interest ranging from 5.00 to 5.25 percent, payable semi-annually.

\$ 1,160,000

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE G: LONG-TERM DEBT - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

Revenue Bonds

\$1,800,000 Revenue Bonds dated June 1, 1997, due in annual installments ranging from \$85,000 to \$155,000 through October 1, 2017, with interest ranging from 5.20 to 5.25 percent, payable semi-annually.

\$ 1,290,000

Capital Lease

The City has entered into a lease purchase agreement to finance the acquisition of two 2006 Chevrolet Tahoes. The lease agreement qualifies as a capital lease for accounting purposes (title transfers at end of lease term at bargain price) and, therefore, has been recorded at the present value of future minimum lease payments as of the date of inception. The cost of equipment acquired under the lease purchase agreement amounted to \$54,710. The lease is due in annual installments \$14,985 through February 6, 2009, with interest at 6.45 percent, payable annually.

\$ 39,725

EPA Liability

The City is liable for half the operations and maintenance costs for the landfill cleanup, with annual installments ranging from \$2,202 to \$10,069 through 2028.

\$ 148,015

Installment Purchase Agreements

\$400,000 Installment purchase agreement (fire truck) dated September 7, 2001, due in annual installments ranging from \$40,000 to \$60,000 through April 1, 2011, with interest at 4.40 percent, payable semi-annually.

\$ 250,000

\$225,000 Installment purchase agreement (computers) dated June 14, 2004, due in annual installments ranging from \$44,988 to \$46,503 through September 1, 2009, with interest at 3.34 percent, payable semi-annually.

137,229

\$50,000 Installment purchase agreement (in-car video systems) dated May 3, 2006, due in semi-annual installments of \$6,787 through March 1, 2010, with interest at 4.05 percent, payable annually.

43,877

\$ 431,106

Land Contracts

\$88,100 Land contract dated May 6, 2006, due in semi-annual installments of \$4,405 through September 1, 2015, with interest at 3.99 percent, payable semi-annually.

\$ 79,290

\$207,000 Land contract dated June 30, 2006, due in annual installments of \$15,000 through July 1, 2023, with interest at 3.00 percent, payable annually.

192,000

\$70,000 Land contract dated September 1, 2006, due in semi-annual installments ranging from \$3,749 to \$5,386 through September 1, 2015, with interest at 3.50 percent, payable semi-annually.

66,316

\$ 337,606

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE G: LONG-TERM DEBT - CONTINUED**PRIMARY GOVERNMENT - CONTINUED**Building Authority Loan

\$110,000 Installment purchase agreement (EDC/DDA Building) dated February 1, 2001, due in monthly installments of \$546 with a balloon payment of \$47,733 through January 1, 2011, with interest at 5.5 percent, payable monthly.

\$ 77,742Accrued Compensated Absences

Individual employees have vested rights upon termination of employment to receive payments for unused sick and vacation. The dollar amounts of these vested rights include related payroll taxes which have been accrued on the government-wide financial statements. The total liability amounted to approximately \$713,192 at December 31, 2006. Of this amount, \$480,026 and \$233,166 are shown as accrued liabilities within the governmental and business-type activities, respectively, in accordance with criteria disclosed in Note A.

COMPONENT UNITS - DISCRETELY PRESENTEDRevenue Bonds

\$500,000 DDA Streetscape Revenue Bonds dated November 1, 1998, due in annual installments of \$60,000 through April 1, 2008, with interest ranging from 6.05 to 6.15 percent, payable semi-annually.

\$ 120,000Land Contract

\$70,000 Land contract dated April 1, 2002, due in monthly installments of \$521, including interest at 7.0 percent, through April 1, 2017.

\$ 45,922CDBG Loan

\$193,526 2003 CDBG Loan received by the City from the State for industrial park improvements. The City will be required to make quarterly payments of \$9,676 through November 1, 2008.

Since the land purchase benefited both the TIFA district and the City as a whole, the loan proceeds were recorded in both the Tax Increment Finance Authority Fund and the Major Street Fund.

The outstanding balances as of December 31, 2006, were as follows:

Major Street Fund	\$ 27,771
Tax Increment Finance Authority Fund	<u>39,964</u>
	<u>\$ 67,735</u>

The annual requirements to pay the debt principal and interest outstanding for the Bonds, Notes, and other obligations are as follows:

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE G: LONG-TERM DEBT - CONTINUED

Primary Government

Year Ending December 31,	Revenue Bonds		General Obligation Unlimited Tax Bonds		Loans Payable		Land Contracts	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 85,000	\$ 134,850	\$ 80,000	\$ 60,450	\$ 6,720	\$ 4,066	\$ 25,418	\$ 11,092
2008	90,000	126,010	80,000	56,450	7,099	3,687	25,695	10,206
2009	95,000	116,650	85,000	52,370	7,499	3,286	25,981	9,311
2010	105,000	106,770	90,000	47,993	7,922	2,863	26,275	8,407
2011	110,000	95,850	100,000	43,313	48,502	219	26,578	7,495
2012-2016	650,000	294,410	585,000	132,300	-	-	121,586	23,615
2017-2021	155,000	16,276	140,000	7,350	-	-	65,927	9,073
2022-2023	-	-	-	-	-	-	20,146	777
	<u>\$ 1,290,000</u>	<u>\$ 890,816</u>	<u>\$ 1,160,000</u>	<u>\$ 400,226</u>	<u>\$ 77,742</u>	<u>\$ 14,121</u>	<u>\$ 337,606</u>	<u>\$ 79,976</u>

Year Ending December 31,	Installment Purchase Agreements		Capital Lease		EPA Liability		CDBG Loan	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 96,905	\$ 16,361	\$ 12,423	\$ 2,562	\$ 9,420	\$ -	\$ 15,869	\$ -
2008	108,142	12,391	13,224	1,761	9,947	-	11,902	-
2009	109,414	8,156	14,078	908	8,228	-	-	-
2010	56,645	3,875	-	-	7,689	-	-	-
2011	60,000	1,320	-	-	7,150	-	-	-
2012-2016	-	-	-	-	32,344	-	-	-
2017-2021	-	-	-	-	28,422	-	-	-
2022-2026	-	-	-	-	44,815	-	-	-
	<u>\$ 431,106</u>	<u>\$ 42,103</u>	<u>\$ 39,725</u>	<u>\$ 5,231</u>	<u>\$ 148,015</u>	<u>\$ -0-</u>	<u>\$ 27,771</u>	<u>\$ -0-</u>

Component Units

Year Ending December 31,	General Obligation Bonds		Land Contract		CDBG Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 60,000	\$ 14,640	\$ 3,141	\$ 3,115	\$ 22,836	\$ -
2008	60,000	7,380	3,368	2,888	17,128	-
2009	-	-	3,611	2,644	-	-
2010	-	-	3,872	2,383	-	-
2011	-	-	4,152	2,104	-	-
2011-2015	-	-	25,722	5,559	-	-
2015-2021	-	-	2,056	30	-	-
	<u>\$ 120,000</u>	<u>\$ 22,020</u>	<u>\$ 45,922</u>	<u>\$ 18,723</u>	<u>\$ 39,964</u>	<u>\$ -0-</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE H: RETIREMENT PLAN**PRIMARY GOVERNMENT (EXCEPT PUBLIC SAFETY)**Plan Description

The City participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all eligible full-time employees (other than public safety employees) of the City. The City also participates in the MERS defined contribution plan. That plan is administered by the ICMA. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the City Council and by negotiation with the City's collective bargaining units. The plan requires no contribution from the employees.

Annual Pension Cost

For the year ended December 31, 2006, the City did not contribute to the plan because their actuarial accrued liability was overfunded. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry actual age cost method. Actual contributions to the retirement system are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return; (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation; and (c) additional salary increases ranging from 0% to 8.4% per year depending on age, seniority, and merit.

The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a period of thirty (30) years.

Three (3) Year Trend Information

	Year Ended December 31,		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Actuarial value of assets	\$14,437,515	\$14,600,587	\$14,786,834
Actuarial accrued liability (AAL) (entry age)	10,905,830	10,696,728	10,987,489
Unfunded (overfunded) AAL	(3,531,685)	(3,903,859)	(3,799,345)
Funded ratio	132 %	136 %	135 %
Covered payroll	1,737,531	1,595,627	1,620,191
UAAL as a percentage of covered payroll	(203) %	(245) %	(235) %
	Year Ended December 31,		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Annual pension cost	\$ -0-	\$ -0-	\$ -0-
Percentage of APC contributed	N/A	N/A	N/A
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE H: RETIREMENT PLAN - CONTINUED**PUBLIC SAFETY**Plan Description

The City participates in the Public Safety Officers' Pension Fund, a single-employer defined benefit pension plan that covers all eligible full-time public safety employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Public Safety Officers' Pension Fund does not issue a publicly available financial report.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the City Council and by negotiation with the City's collective bargaining units. The plan requires a 4% contribution from the employees.

Annual Pension Cost

For the year ended December 31, 2006, the City did not contribute to the plan because their actuarial accrued liability was over funded. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry actual age cost method. Actual contributions to the retirement system are based on a level percent of payroll. Significant actuarial assumptions used include (a) a 6.00 percent investment rate of return; (b) projected salary increases of 4.0 percent per year compounded annually, attributable to inflation; and (c) additional salary increases ranging from 0.2% to 4.0% per year depending on age, seniority, and merit.

The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a five (5) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a remaining period of seventeen (17) years.

Three (3) Year Trend Information

	Year Ended December 31,		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Actuarial value of assets	\$13,967,120	\$14,189,742	\$14,306,560
Actuarial accrued liability (AAL) (entry age)	8,805,582	9,217,404	10,146,419
Unfunded (overfunded) AAL	(5,161,538)	(4,975,338)	(4,160,141)
Funded ratio	159 %	154 %	141%
Covered payroll	1,351,980	1,290,940	1,288,530
UAAL as a percentage of covered payroll	(382) %	(385) %	(323) %

	Year Ended December 31,		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Annual pension cost	\$ -0-	\$ -0-	\$ -0-
Percentage of APC contributed	N/A	N/A	N/A
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE I: RISK MANAGEMENT

The City participates in a pool, the Michigan Municipal Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The City has not been informed of any special assessments being required.

The City also participates in a State pool, the Michigan Municipal League, with other municipalities for property, liability, bonding, and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The City has not been informed of any special assessments being required.

NOTE J: FUND EQUITY RESERVES

Reserved fund balance is used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use.

The following are the various fund balance reserves as of December 31, 2006:

Fund Balances

Primary Government

General Fund

Reserved for park fence	\$ 16,748
Reserved for prepaids	<u>68,506</u>

85,254

Nonmajor Special Revenue Funds

Major Street

Reserved for prepaids	5,400
-----------------------	-------

Local Street

Reserved for prepaids	5,400
-----------------------	-------

Library

Reserved for prepaids	1,000
-----------------------	-------

Reserved for library activities	176,840
---------------------------------	---------

Albion Building Authority

Reserved for prepaids	<u>2,905</u>
-----------------------	--------------

191,545

Nonmajor Debt Service Funds

Michigan Transportation Bond

Reserved for debt service	40,143
---------------------------	--------

G.O. Water Bonds

Reserved for debt service	23,923
---------------------------	--------

111 Center Street Debt

Reserved for debt service	3,398
---------------------------	-------

201 N. Clinton Debt

Reserved for debt service	<u>132</u>
---------------------------	------------

67,596

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE J: FUND EQUITY RESERVESFund Balances

Primary Government - continued

Permanent Funds

Library Trust Fund

Reserved for library activities \$ 991,361

Cemetery Perpetual Care

Reserved for perpetual care 383,0491,374,410Total primary government \$ 1,718,805

Fiduciary Fund

Private Purpose Trust

Held in Trust for Private Purposes \$16,792,268

Component Units

Downtown Development Authority

Reserved for prepaids \$ 500

Tax Increment Finance Authority

Reserved for prepaids 75Total component units \$ 575**NOTE K: RESTRICTED NET ASSETS**

Restrictions of net assets shown in the Government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of December 31, 2006:

PRIMARY GOVERNMENT

Governmental Activities

Debt service \$ 40,769

Streets and highways 387,460\$ 428,229**NOTE L: POST-EMPLOYMENT HEALTH CARE BENEFITS**

In addition to providing pension benefits, the City provides certain health care benefits to all full-time employees upon retirement in accordance with labor contracts. Substantially all of the City's employees may become eligible for these benefits if they reach the normal retirement age of 55 with at least 25 years of credited service while working for the City. These benefits are provided until age 65, at which time the individuals are eligible for Medicare coverage.

The cost of retiree health care benefits is recognized as an expenditure as insurance premiums are paid. For the year ended December 31, 2006, those costs for employees that retired from departments other than public safety totaled \$7,200. For the year ended December 31, 2006, the cost for public safety retirees paid to the City of Albion Public Safety Officers' Retirement System totaled \$37,459.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE L: POST-EMPLOYMENT HEALTH CARE BENEFITS - CONTINUED

The Governmental Accounting Standards Board has released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. This pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the new employee, rather than at the time the health care premiums are paid. This pronouncement is effective for the City of Albion for the year ended December 31, 2009.

NOTE M: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the body of the required supplementary information, the City's budgeted expenditures in the General and major Special Revenue Funds have been shown at the functional classification level. The approved budgets of the City have been adopted at the activity level for the General Fund and the total expenditure level for the Special Revenue Funds.

During the year ended December 31, 2006, the City incurred expenditures in the General Fund and Special Revenue Funds in excess of the amount appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General government			
Attorney	\$ 71,350	\$ 72,181	\$ 831
Cemetery	148,465	150,362	1,897
Public safety			
Code enforcement	88,551	88,757	206
Public works			
Engineering	27,266	29,142	1,876
Highways and streets	176,771	182,190	5,419
Health and welfare			
Environmental expenditures	5,921	5,992	71
Other	174,070	193,181	19,111
Debt service			
Interest and fiscal fees	-	669	669
Special Revenue Funds			
Community Development Block Grant Fund	-	25	25
Albion Trust Fund	80,800	160,800	80,000

NOTE N: CONTRACTUAL COMMITMENT

The City has entered into a contract to replace the waste water treatment plant digester cover. The contractual commitment outstanding at December 31, 2006 totaled \$24,075. The City has adequate fund equity to cover this commitment.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE O: CONSTRUCTION CODE FEES

The City oversees building construction, in accordance with the State's construction code act, including inspection of building construction and renovation ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity since January 1, 2000, is as follows:

Deficit at December 31, 2005	\$(179,986)
Construction code revenue	21,885
Related expenses - Direct costs	<u>(88,757)</u>
Deficit at December 31, 2006	<u>\$(246,858)</u>

NOTE P: CONTINGENCIES

The Environmental Protection Agency (EPA) has identified the City as one of the potentially responsible parties for the contamination of a landfill used by the City and has named the City in an action filed in 1997 seeking to recover the EPA's past service costs and oversight costs. The parties negotiated settlement calling for the City to make certain settlement payments and conduct operations and maintenance work jointly with another party. On July 1, 2004, the City made its final installment payment to the EPA. The land operation and maintenance work continues at the site. The Michigan Department of Environmental Quality (MDEQ) is also seeking to recover response costs in a related but separate claim filed in March 1999. There have been no recent communications to the City or judicial enforcement of this claim against the City by MDEQ. Sufficient information is not available at this time for the City's legal counsel to form a judgment with respect to the merits, if any, of this claim or the amount or likelihood of potential loss to the City which might result from this claim.

In November 1997, the MDEQ also notified the City that another property within the City had been identified as a site of alleged environmental contamination and that the City is the alleged responsible owner of this site. There have been no recent communications to the City or judicial enforcement of this claim against the City by MDEQ. Sufficient information is not available at this time for the City's legal counsel to form a judgment with respect to the merits, if any, of this claim or the amount or likelihood of potential loss to the City which might result from this claim.

In addition, the City has informed the Michigan Department of Natural Resources (now known as MDEQ) of two (2) leaking underground storage tanks that were in the City's possession. The City has removed the underground storage tanks and taken action to limit further contamination caused by the underground storage tanks. Semi-Annual Groundwater Monitoring Reports are submitted to the MDEQ and a Closure Request is currently pending before the MDEQ for one (1) of the sites. Sufficient information is not available at this time to determine the amount of potential losses, if any, to the City which might result from these matters.

There are various other legal actions pending against the City. Due to the inconclusive nature of many of the actions, it is not possible for legal counsel to determine the probable outcome or a reasonable estimate of the City's potential liability, if any. Those various other legal actions for which a reasonable estimate can be determined of the City's potential liability and that would not be covered by insurance and reserves, if any, are considered by City management and legal counsel to be immaterial.

REQUIRED SUPPLEMENTARY INFORMATION

City of Albion

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes				
Property taxes	\$ 1,489,000	\$ 1,489,000	\$ 1,481,535	\$ (7,465)
Income taxes	1,080,000	1,120,000	1,216,623	96,623
Payments in lieu of taxes	6,700	40,000	29,228	(10,772)
Penalties and interest	25,000	25,000	26,985	1,985
Administration fees	60,000	60,000	65,379	5,379
Total taxes	2,660,700	2,734,000	2,819,750	85,750
Licenses and permits	57,856	60,156	53,035	(7,121)
Intergovernmental				
Federal/State	1,282,000	1,287,000	1,281,872	(5,128)
Local	82,650	89,650	76,523	(13,127)
Total intergovernmental	1,364,650	1,376,650	1,358,395	(18,255)
Charges for services				
USDA food program	30,000	30,000	19,662	(10,338)
Cemetery	40,000	40,000	45,111	5,111
Parks and recreation	11,350	13,000	9,664	(3,336)
Other fees	236,444	250,444	264,818	14,374
Total charges for services	317,794	333,444	339,255	5,811
Fines and forfeits	66,000	66,000	73,381	7,381
Interest and rents	33,600	78,600	85,408	6,808
Other				
Contributions	-	1,000	4,463	3,463
Reimbursements	205,260	205,960	130,225	(75,735)
Other	53,750	57,550	64,699	7,149
Total other	259,010	264,510	199,387	(65,123)
TOTAL REVENUES	4,759,610	4,913,360	4,928,611	15,251

City of Albion

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES				
General government				
City Council	\$ 34,377	\$ 34,377	\$ 32,253	\$ 2,124
City Manager	87,312	87,312	78,645	8,667
Human resources	48,612	48,612	48,269	343
Assessor	95,064	95,064	90,353	4,711
Attorney	71,350	71,350	72,181	(831)
Clerk/treasurer	342,585	342,585	324,582	18,003
Municipal building	83,153	83,153	68,651	14,502
Cemetery	148,465	148,465	150,362	(1,897)
Other	171,904	171,904	133,398	38,506
Total general government	1,082,822	1,082,822	998,694	84,128
Public safety				
Police and fire	2,131,780	2,306,013	2,214,150	91,863
Code enforcement	74,977	88,551	88,757	(206)
Total public safety	2,206,757	2,394,564	2,302,907	91,657
Public works				
Engineering	18,968	27,266	29,142	(1,876)
Highways and streets	176,771	176,771	182,190	(5,419)
Tree trimming	11,401	25,957	22,780	3,177
Total public works	207,140	229,994	234,112	(4,118)
Health and welfare				
Environmental expenditures	9,000	5,921	5,992	(71)
USDA food program	32,367	32,867	32,409	458
Total health and welfare	41,367	38,788	38,401	387
Community and economic development				
Planning	82,590	82,590	71,460	11,130
Recreation and cultural				
Parks and recreation	325,511	390,785	369,359	21,426
Other	174,070	174,070	193,181	(19,111)

City of Albion

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES - CONTINUED				
Debt service				
Principal	\$ -	\$ 31,187	\$ 31,187	\$ -0-
Interest and fiscal fees	-	-	669	(669)
Total debt service	-0-	31,187	31,856	(669)
Capital outlay	305,847	305,847	236,695	69,152
TOTAL EXPENDITURES	4,426,104	4,730,647	4,476,665	184,830
EXCESS OF REVENUES OVER EXPENDITURES	333,506	182,713	451,946	200,081
OTHER FINANCING SOURCES (USES)				
Debt proceeds	-	50,000	104,710	54,710
Transfers in	-	80,800	80,800	-0-
Transfers out	(312,929)	(312,929)	(300,617)	12,312
TOTAL OTHER FINANCING SOURCES (USES)	(312,929)	(182,129)	(115,107)	67,022
NET CHANGE IN FUND BALANCE	20,577	584	336,839	267,103
Fund balance, beginning of year	645,431	645,431	645,431	-0-
Fund balance, end of year	\$ 666,008	\$ 646,015	\$ 982,270	\$ 267,103

City of Albion

Community Development Block Grant Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Interest and rents	\$ 6,000	\$ 6,000	\$ 10,675	\$ 4,675
EXPENDITURES				
Community and economic development	<u>-</u>	<u>-</u>	<u>25</u>	<u>(25)</u>
NET CHANGE IN FUND BALANCE	6,000	6,000	10,650	4,650
Fund balance, beginning of year	<u>333,398</u>	<u>333,398</u>	<u>333,398</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 339,398</u>	<u>\$ 339,398</u>	<u>\$ 344,048</u>	<u>\$ 4,650</u>

City of Albion

Revolving Loan Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Charges for services	\$ -	\$ -	\$ 21,241	\$ 21,241
Interest	6,514	6,514	24,279	17,765
TOTAL REVENUES	6,514	6,514	45,520	39,006
EXPENDITURES				
Community and economic development	5,083	5,083	3,609	1,474
NET CHANGE IN FUND BALANCE	1,431	1,431	41,911	40,480
Fund balance, beginning of year	443,291	443,291	443,291	-0-
Fund balance, end of year	<u>\$ 444,722</u>	<u>\$ 444,722</u>	<u>\$ 485,202</u>	<u>\$ 40,480</u>

City of Albion

Albion Trust Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Interest	\$ -	\$ 41,000	\$ 44,998	\$ 3,998
Other	-	-	245	245
TOTAL REVENUES	-0-	41,000	45,243	4,243
EXPENDITURES				
Community and economic development	-	-	80,000	(80,000)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-0-	41,000	(34,757)	(75,757)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	40,000	-	(40,000)
Transfers out	-	(80,800)	(80,800)	-0-
TOTAL OTHER FINANCING SOURCES (USES)	-0-	(40,800)	(80,800)	(40,000)
NET CHANGE IN FUND BALANCE	-0-	200	(115,557)	(115,757)
Fund balance, beginning of year	1,219,896	1,219,896	1,219,896	-0-
Fund balance, end of year	<u>\$ 1,219,896</u>	<u>\$ 1,220,096</u>	<u>\$ 1,104,339</u>	<u>\$ (115,757)</u>

OTHER SUPPLEMENTARY INFORMATION

City of Albion

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

December 31, 2006

	Special Revenue			
	Major Street	Local Street	Solid Waste	Drug Law Enforcement
ASSETS				
Cash and cash equivalents	\$ 229,962	\$ 60,127	\$ 239,985	\$ 24,341
Investments	-	-	-	-
Accounts receivable	-	-	5,350	-
Taxes receivable	-	-	-	-
Due fro other governmental units	68,489	23,459	-	-
Prepays	5,400	5,400	-	-
Inventories	9,263	-	-	-
TOTAL ASSETS	<u>\$ 313,114</u>	<u>\$ 88,986</u>	<u>\$ 245,335</u>	<u>\$ 24,341</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	11,838	\$ 2,751	\$ 145	\$ -
Accrued liabilities	51	-	-	5,950
Deferred revenue	-	-	8,033	-
Due to other governmental units	-	-	-	-
TOTAL LIABILITIES	11,889	2,751	8,178	5,950
FUND BALANCES				
Reserved for				
Prepays	5,400	5,400	-	-
Library activities	-	-	-	-
Perpetual care	-	-	-	-
Debt service	-	-	-	-
Unreserved - undesignated	295,825	80,835	237,157	18,391
TOTAL FUND BALANCES	<u>301,225</u>	<u>86,235</u>	<u>237,157</u>	<u>18,391</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 313,114</u>	<u>\$ 88,986</u>	<u>\$ 245,335</u>	<u>\$ 24,341</u>

Funds		Debt Service Funds		
Library	Albion Building Authority	Michigan Transportation Bond	G.O. Water Bonds	EDC & DDA Building
\$ 178,200	\$ 486,737	\$ 40,143	\$ 25,369	\$ -
-	-	-	-	-
-	-	-	612	-
-	-	-	1,010	-
-	-	-	-	-
1,000	2,905	-	-	-
-	-	-	-	-
<u>\$ 179,200</u>	<u>\$ 489,642</u>	<u>\$ 40,143</u>	<u>\$ 26,991</u>	<u>\$ -0-</u>
\$ 1,355	\$ -	\$ -	\$ -	\$ -
-	17,102	-	294	-
-	-	-	2,774	-
5	-	-	-	-
<u>1,360</u>	<u>17,102</u>	<u>-0-</u>	<u>3,068</u>	<u>-0-</u>
1,000	2,905	-	-	-
176,840	-	-	-	-
-	-	-	-	-
-	-	40,143	23,923	-
-	469,635	-	-	-
<u>177,840</u>	<u>472,540</u>	<u>40,143</u>	<u>23,923</u>	<u>-0-</u>
<u>\$ 179,200</u>	<u>\$ 489,642</u>	<u>\$ 40,143</u>	<u>\$ 26,991</u>	<u>\$ -0-</u>

City of Albion

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

December 31, 2006

	Debt Service			
	111 Center Street Debt	DPW Building Debt	Fire Truck Loan	201 N. Clinton Debt
ASSETS				
Cash and cash equivalents	\$ 3,398	\$ -	\$ -	\$ 132
Investments	-	-	-	-
Accounts receivable	-	-	-	-
Taxes receivable	-	-	-	-
Due fro other governmental units	-	-	-	-
Prepays	-	-	-	-
Inventories	-	-	-	-
TOTAL ASSETS	<u>\$ 3,398</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 132</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	-	-	-	-
Deferred revenue	-	-	-	-
Due to other governmental units	-	-	-	-
TOTAL LIABILITIES	-0-	-0-	-0-	-0-
FUND BALANCES				
Reserved for				
Prepays	-	-	-	-
Library activities	-	-	-	-
Perpetual care	-	-	-	-
Debt service	3,398	-	-	132
Unreserved - undesignated	-	-	-	-
TOTAL FUND BALANCES	<u>3,398</u>	<u>-0-</u>	<u>-0-</u>	<u>132</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,398</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 132</u>

Capital Projects Funds			Permanent Fund	Total Nonmajor Governmental Funds
Street Improvements	Computer Information Systems	MDOT Street Reconstruction	Cemetery Trust	
\$ 31,481	\$ 190	\$ 29,819	\$ 365,884	\$1,715,768
-	-	-	17,165	17,165
-	-	-	-	5,962
13,083	-	-	-	14,093
-	-	-	-	91,948
-	-	-	-	14,705
-	-	-	-	9,263
<u>\$ 44,564</u>	<u>\$ 190</u>	<u>\$ 29,819</u>	<u>\$ 383,049</u>	<u>\$1,868,904</u>
\$ 2,467	\$ -	\$ -	\$ -	\$ 18,556
-	-	-	-	23,397
5,473	-	-	-	16,280
-	-	-	-	5
7,940	-0-	-0-	-0-	58,238
-	-	-	-	14,705
-	-	-	-	176,840
-	-	-	383,049	383,049
-	-	-	-	67,596
36,624	190	29,819	-	1,168,476
36,624	190	29,819	383,049	1,810,666
<u>\$ 44,564</u>	<u>\$ 190</u>	<u>\$ 29,819</u>	<u>\$ 383,049</u>	<u>\$1,868,904</u>

City of Albion

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES

Year Ended December 31, 2006

	Special Revenue			
	Major Street	Local Street	Solid Waste	Drug Law Enforcement
REVENUES				
Taxes	\$ -	\$ -	\$ 221,736	\$ -
Intergovernmental	719,823	168,376	-	-
Charges for services	3,930	-	-	-
Fines and forfeits	-	-	-	13,690
Interest and rents	5,457	1,789	6,790	637
Other	-	-	578	-
TOTAL REVENUES	729,210	170,165	229,104	14,327
EXPENDITURES				
General government	-	-	-	-
Public safety	-	-	-	15,860
Public works	593,516	249,472	191,845	-
Community and economic development	29,200	-	-	-
Recreation and cultural	-	-	-	-
Debt service				
Principal	15,869	-	-	-
Interest and fiscal fees	-	-	-	-
Capital outlay	-	-	-	-
TOTAL EXPENDITURES	638,585	249,472	191,845	15,860
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	90,625	(79,307)	37,259	(1,533)
OTHER FINANCING SOURCES (USES)				
Debt proceeds	-	-	-	-
Transfers in	196,000	112,500	-	-
Transfers out	(138,133)	(3,000)	(1,500)	-
TOTAL OTHER FINANCING SOURCES (USES)	57,867	109,500	(1,500)	-0-
NET CHANGE IN FUND BALANCES	148,492	30,193	35,759	(1,533)
Fund balances, beginning of year	152,733	56,042	201,398	19,924
Fund balances, end of year	\$ 301,225	\$ 86,235	\$ 237,157	\$ 18,391

Funds		Debt Service Funds		
Library	Albion Building Authority	Michigan Transportation Bond	G.O. Water Bonds	EDC & DDA Building
\$ 73,802	\$ -	\$ -	\$ 147,605	\$ -
12,339	227,455	-	-	-
37,354	-	-	-	-
43,115	-	-	-	-
6,288	257,070	1,205	891	-
19,340	6,305	-	-	-
192,238	490,830	1,205	148,496	-0-
432,901	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	286,902	-	-	-
-	-	-	-	-
-	-	20,000	75,000	5,592
-	-	1,168	64,519	5,194
-	65,033	-	-	-
432,901	351,935	21,168	139,519	10,786
(240,663)	138,895	(19,963)	8,977	(10,786)
-	-	-	-	-
240,448	-	21,400	-	10,786
-	(32,746)	-	-	-
240,448	(32,746)	21,400	-0-	10,786
(215)	106,149	1,437	8,977	-0-
178,055	366,391	38,706	14,946	-
<u>\$ 177,840</u>	<u>\$ 472,540</u>	<u>\$ 40,143</u>	<u>\$ 23,923</u>	<u>\$ -0-</u>

City of Albion

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - CONTINUED

Year Ended December 31, 2006

	Debt Service			
	111 Center Street Debt	DPW Building Debt	Fire Truck Loan	201 N. Clinton Debt
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Fines and Forfeits	-	-	-	-
Interest and rents	-	-	-	-
Other	-	-	-	-
TOTAL REVENUES	-0-	-0-	-0-	-0-
EXPENDITURES				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Community and economic development	-	-	-	-
Recreation and cultural	-	-	-	-
Debt service				
Principal	3,684	15,000	40,000	8,810
Interest and fiscal fees	1,518	-	11,890	4,418
Capital outlay	70,000	207,000	-	-
TOTAL EXPENDITURES	75,202	222,000	51,890	13,228
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(75,202)	(222,000)	(51,890)	(13,228)
OTHER FINANCING SOURCES (USES)				
Debt proceeds	70,000	207,000	-	-
Transfers in	8,600	15,000	51,886	13,360
Transfers out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	78,600	222,000	51,886	13,360
NET CHANGE IN FUND BALANCES	3,398	-0-	(4)	132
Fund balances, beginning of year	-	-	4	-
Fund balances, end of year	\$ 3,398	\$ -0-	\$ -0-	\$ 132

Capital Projects Funds			Permanent Fund	Total Nonmajor Governmental Funds
Street Improvements	Computer Information Systems	MDOT Street Reconstruction	Cemetery Trust	
\$ 331,986	\$ -	\$ -	\$ -	\$ 775,129
-	-	-	-	1,127,993
-	-	-	3,000	44,284
-	-	-	-	56,805
438	167	-	9,848	290,580
-	-	-	-	26,223
332,424	167	-0-	12,848	2,321,014
-	7	-	-	432,908
-	-	-	-	15,860
-	-	-	-	1,034,833
-	-	-	-	316,102
-	-	-	-	-
-	44,249	-	-	228,204
-	6,034	-	-	94,741
12,570	-	110,646	347	465,596
12,570	50,290	110,646	347	2,588,244
319,854	(50,123)	(110,646)	12,501	(267,230)
-	-	-	-	277,000
-	50,313	97,000	-	817,293
(293,000)	-	-	-	(468,379)
(293,000)	50,313	97,000	-0-	625,914
26,854	190	(13,646)	12,501	358,684
9,770	-	43,465	370,548	1,451,982
\$ 36,624	\$ 190	\$ 29,819	\$ 383,049	\$1,810,666

City of Albion

Agency Funds

COMBINING STATEMENT OF FIDUCIARY NET ASSETS

December 31, 2006

	<u>Trust and Agency</u>	<u>Current Tax Collections</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	<u>\$ 109,038</u>	<u>\$ 472,185</u>	<u>\$ 581,223</u>
LIABILITIES			
Due to State	\$ -	\$ 35,634	\$ 35,634
Due to County	13	64,444	64,457
Due to Schools	-	360,426	360,426
Due to others	<u>109,025</u>	<u>11,681</u>	<u>120,706</u>
TOTAL LIABILITIES	<u>\$ 109,038</u>	<u>\$ 472,185</u>	<u>\$ 581,223</u>

City of Albion

Private Purpose Trust Funds

COMBINING STATEMENT OF FIDUCIARY NET ASSETS

December 31, 2006

	Public Safety Officers' Pension	Retiree Health Care	Total
ASSETS			
Cash	\$ 776,861	\$ 167,199	\$ 944,060
Investments	15,785,659	-	15,785,659
Interest receivable	62,549	-	62,549
TOTAL ASSETS	<u>\$ 16,625,069</u>	<u>\$ 167,199</u>	<u>\$ 16,792,268</u>
NET ASSETS			
Held in trust for private purposes	<u>\$ 16,625,069</u>	<u>\$ 167,199</u>	<u>\$ 16,792,268</u>

City of Albion

Private Purpose Trust Funds

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year Ended December 31, 2006

	Public Safety Officers' Pension	Retiree Health Care	Total
ADDITIONS			
Investment income			
Interest and dividends	\$ 500,197	\$ 75,652	575,849
Net increase in fair value of investments	914,195	-	914,195
Gain on sales of investments	982,910	-	982,910
Less investment expenses	(18,217)	-	(18,217)
Net investment income	2,379,085	75,652	2,454,737
Contributions			
Employer	50,039	-	50,039
TOTAL ADDITIONS	2,429,124	75,652	2,504,776
DEDUCTIONS			
Benefit payments	604,116	-	604,116
Administrative expenses	118,855	156	119,011
TOTAL DEDUCTIONS	722,971	156	723,127
CHANGE IN NET ASSETS	1,706,153	75,496	1,781,649
Net assets, beginning of year	14,918,916	91,703	15,010,619
Net assets, end of year	\$ 16,625,069	\$ 167,199	\$ 16,792,268

City of Albion

Component Unit Funds

COMBINING BALANCE SHEET - ECONOMIC DEVELOPMENT CORPORATION

December 31, 2006

	Economic Development	Business Incubator	Total
ASSETS			
Cash and cash equivalents	\$ 5,474	\$ 2,144	\$ 7,618
Accounts receivable	88	7,362	7,450
TOTAL ASSETS	\$ 5,562	\$ 9,506	\$ 15,068
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Deferred revenue	\$ 768	\$ 5,677	\$ 6,445
FUND BALANCES			
Unreserved - undesignated	4,794	3,829	8,623
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,562	\$ 9,506	\$ 15,068

City of Albion

Component Unit Funds

RECONCILIATION OF THE COMBINING BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - ECONOMIC DEVELOPMENT CORPORATION

December 31, 2006

Total fund balances - governmental funds \$ 8,623

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 61,655	
Accumulated depreciation is	<u>(4,000)</u>	
Capital assets, net		57,655

Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Land contract	<u>(45,922)</u>
---------------	-----------------

Net assets of governmental activities \$ 20,356

City of Albion

Component Unit Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - ECONOMIC DEVELOPMENT CORPORATION

Year Ended December 31, 2006

	<u>Economic Development</u>	<u>Business Incubator</u>	<u>Total</u>
REVENUES			
Intergovernmental	\$ 49,347	\$ -	\$ 49,347
Interest and rents	84,612	21,105	105,717
Other	<u>108</u>	<u>9,824</u>	<u>9,932</u>
TOTAL REVENUES	134,067	30,929	164,996
EXPENDITURES			
Current			
Community and economic development	138,701	34,638	173,339
Debt service	<u>6,256</u>	<u>-</u>	<u>6,256</u>
TOTAL EXPENDITURES	<u>144,957</u>	<u>34,638</u>	<u>179,595</u>
NET CHANGE IN FUND BALANCES	(10,890)	(3,709)	(14,599)
Fund balances, beginning of year	<u>15,684</u>	<u>7,538</u>	<u>23,222</u>
Fund balances, end of year	<u>\$ 4,794</u>	<u>\$ 3,829</u>	<u>\$ 8,623</u>

City of Albion

Component Unit Funds

RECONCILIATION OF THE COMBINING STATEMENT OF REVENUES
EXPENDITURES, AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES - ECONOMIC DEVELOPMENT CORPORATION

Year Ended December 31, 2006

Net change in fund balances - governmental funds **\$ (14,599)**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Depreciation expense (800)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Land contract payments 2,929

Change in net assets of governmental activities **\$ (12,470)**

City of Albion

Component Unit Funds

COMBINING BALANCE SHEET - DOWNTOWN DEVELOPMENT AUTHORITY

December 31, 2006

	Special Revenue	Debt Service	
	DDA	DDA Bond	Total
ASSETS			
Cash	\$ 119,338	\$ 6,592	\$ 125,930
Taxes receivable	15,173	-	15,173
Prepays	500	-	500
TOTAL ASSETS	\$ 135,011	\$ 6,592	\$ 141,603
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 11,569	\$ -	\$ 11,569
Accrued liabilities	87	-	87
TOTAL LIABILITIES	11,656	-0-	11,656
FUND BALANCES			
Reserved for prepaids	500	-	500
Unreserved - undesignated	122,855	6,592	129,447
TOTAL FUND BALANCES	123,355	6,592	129,947
TOTAL LIABILITIES AND FUND BALANCES	\$ 135,011	\$ 6,592	\$ 141,603

City of Albion

Component Unit Funds

RECONCILIATION OF THE COMBINING BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - DOWNTOWN DEVELOPMENT AUTHORITY

December 31, 2006

Total fund balances - governmental funds \$ 129,947

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	61,588	
Accumulated depreciation is	<u>(733)</u>	
Capital assets, net		60,855

Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Accrued interest payable	1,830	
Revenue bonds	<u>120,000</u>	
		<u>(121,830)</u>

Net assets of governmental activities \$ 68,972

City of Albion

Component Unit Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended December 31, 2006

	Special Revenue	Debt Service	
	DDA	DDA Bond	Total
REVENUES			
Taxes	\$ 121,709	\$ -	\$ 121,709
Intergovernmental - local	114,614	-	114,614
Interest	3,221	205	3,426
Other	29,704	-	29,704
TOTAL REVENUES	269,248	205	269,453
EXPENDITURES			
Current			
Community and economic development	204,865	-	204,865
Debt service			
Principal	-	60,000	60,000
Interest and fiscal fees	-	9,653	9,653
TOTAL EXPENDITURES	204,865	69,653	274,518
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	64,383	(69,448)	(5,065)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	71,420	71,420
Transfers out	(71,420)	-	(71,420)
TOTAL OTHER FINANCING SOURCES (USES)	(71,420)	71,420	-0-
NET CHANGE IN FUND BALANCES	(7,037)	1,972	(5,065)
Fund balances, beginning of year	130,392	4,620	135,012
Fund balances, end of year	\$ 123,355	\$ 6,592	\$ 129,947

City of Albion

Component Unit Funds

RECONCILIATION OF THE COMBINING STATEMENT OF REVENUES
EXPENDITURES, AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES - DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended December 31, 2006

Net change in fund balances - governmental funds **\$ (5,065)**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	61,588	
Depreciation expense	<u>(733)</u>	
Excess of capital outlay over depreciation expense		60,855

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond principal retirements	60,000
----------------------------	--------

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental fund. These activities consist of:

Decrease in accrued interest payable	<u>3,630</u>
--------------------------------------	--------------

Change in net assets of governmental activities **\$ 119,420**

City of Albion

Component Unit Fund

BALANCE SHEET - TAX INCREMENT FINANCE AUTHORITY

December 31, 2006

ASSETS

Cash and cash equivalents	\$ (18,399)
Investments	41,358
Accounts receivable	538
Taxes receivable	27,162
Due from other governmental units	1
Prepays	<u>75</u>

TOTAL ASSETS	<u>\$ 50,735</u>
--------------	------------------

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	\$ 765
Accrued liabilities	<u>2,847</u>

TOTAL LIABILITIES	3,612
-------------------	-------

FUND BALANCE

Reserved for prepaids	75
Unreserved - undesignated	<u>47,048</u>

TOTAL FUND BALANCE	<u>47,123</u>
--------------------	---------------

TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 50,735</u>
------------------------------------	------------------

City of Albion

Component Unit Fund

RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - TAX INCREMENT FINANCE AUTHORITY

December 31, 2006

Total fund balance - governmental fund \$ 47,123

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	205,000	
Accumulated depreciation is	<u>(21,600)</u>	
Capital assets, net		183,400

Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

CDBG loan	<u>(39,964)</u>	
-----------	-----------------	--

Net assets of governmental activities \$ 190,559

City of Albion

Component Unit Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - TAX INCREMENT FINANCE AUTHORITY

Year Ended December 31, 2006

REVENUES	
Taxes	\$ 139,443
Intergovernmental - local	17,127
Interest and rents	14,176
Other	<u>10,909</u>
TOTAL REVENUES	181,655
EXPENDITURES	
Current	
Community and economic development	132,080
Debt service	
Principal	<u>22,836</u>
TOTAL EXPENDITURES	<u>154,916</u>
NET CHANGE IN FUND BALANCE	26,739
Fund balance, beginning of year	<u>20,384</u>
Fund balance, end of year	<u><u>\$ 47,123</u></u>

City of Albion

Component Unit Fund

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL
FUND TO THE STATEMENT OF ACTIVITIES - TAX INCREMENT FINANCE AUTHORITY

Year Ended December 31, 2006

Net change in fund balance - governmental fund **\$ 26,739**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Depreciation expense	(1,800)
----------------------	---------

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

CDBG loan payments	<u>22,836</u>
--------------------	---------------

Change in net assets of governmental activities	<u><u>\$ 47,775</u></u>
--	--------------------------------

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of City Council
City of Albion
Albion, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Albion as of and for the year ended December 31, 2006, which collectively comprise the City of Albion's basic financial statements and have issued our report thereon dated June 18, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Albion's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider 2004-2, 2006-1, and 2006-2 to be significant deficiencies in internal control over financial reporting.

2004-2 SEGREGATION OF DUTIES

Condition: During our consideration and assessment of fraud risk, we noted that at the present time, the City does not have sufficient segregation of duties in various functions, especially in the areas of cash receipts and disbursements. This issue was noted and reported in our audit comments last year. During the course of our audit, the following specific conditions were noted:

2004-2 SEGREGATION OF DUTIES - CONTINUED

- a. One individual is able to create new vendors and also process and mail accounts payable disbursements.
- b. One individual is able to open the mail and also enter receipts into the general ledger. In addition, a log of mail receipts is not maintained and reviewed at an appropriate level of management.
- c. Income taxes are billed, collected, and reconciled by the same individual. This individual is also responsible for performing cashier functions, including the receipting of payments.
- d. Utility receivable amounts are billed, collected, and reconciled by the same individual. This individual is also responsible for performing cashier functions, including the receipting of payments.
- e. Payroll reports and disbursements are not reviewed by someone independent of the payroll preparation process.

Criteria: Duties and responsibilities for handling receipts and disbursements should be arranged and separated so that an employee does not perform more than one of the following functions:

- a. Opening the mail.
- b. Receipting payments.
- c. Balancing receipts to the accounting records.
- d. Performing the bank reconciliation.

Cause: The City has specific individuals for each operational process and has not changed these individuals functions to segregate those duties.

Effect: While this is a common occurrence in many organizations due to the limited number of employees, the City Council should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated. In smaller entities, where the number of employees is limited and duties cannot be adequately separated, the City's management must provide a greater review and supervision of employee functions and procedures.

Corrective Action Response: The Finance Director and the Deputy Treasurer will periodically sample transactions to ensure compliance with proper procedures.

2006-1 BANK RECONCILIATIONS

Condition: During the auditing of the City's bank accounts, we noted that the bank account for security deposits at Maple Grove were not reconciled for the entire year and the listing of residents' deposits does not reconcile to the bank account, at December 31, 2006 the bank balance for this account was \$39,178.77.

Criteria: The Department of Housing and Urban Development requires that security deposits be held in this account and refunded to residents, plus 2 percent, when they move out.

Cause: Unknown

Effect: The City has not maintained adequate interfund controls over cash activities.

Corrective Action Response: Management of the City is currently reviewing procedures related to the Department of Housing and Urban Development requirements in order to consider implementing changes that will comply with the cited requirements. The reconciliation for this account was completed by the conclusion of audit fieldwork.

2006-2 AUDIT ADJUSTMENTS

Condition: During the course of our audit, we have annually performed searches for unrecorded receivables, payables, and accrued liabilities. As a result of these searches, journal entries were suggested to the City's management for entry into the general ledger. In many instances, the suggested amounts would be considered material to the City's financial statements.

Criteria: Responsibility for the fair presentation of the City's financial statements, including the amounts and disclosure within the financial statements, rest with the City's management. The City should establish sufficient internal controls to assure that the financial statements are fairly presented, in all material respects, in accordance with generally accepted accounting principles.

2006-2 AUDIT ADJUSTMENTS - CONTINUED

Cause: The City has historically relied on the independent auditors to assist in determining of the amounts due to/due from the entity as of year-end (i.e., accounts receivable, accounts payable, accrued liabilities, etc.).

Effect: The government's ability to prepare financial statements in accordance with generally accepted accounting principles has typically been based, in part, on its reliance on the independent auditors. By definition, independent auditors cannot be part of the government's internal control.

Corrective Action Response: The Finance Director has reviewed the auditor journal entries, determined the nature of the procedural deficiency and directed staff as to the appropriate method of handling these transactions in the future.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Albion's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider 2004-2 and 2006-2 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described below.

2006-3 UNFAVORABLE BUDGET VARIANCES

Condition: As noted in the financial statements, some of the activities and funds of the City exceeded the amounts appropriated. The variances noted were in the General and Special Revenue Funds.

Criteria: Michigan Public Act 621 of 1978, as amended, provides that the City adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

Cause: The City's budget was not amended as it became apparent that expenditures would not exceed the amounts appropriated.

Effect: Although adjustments were made to adjust budgets for expenditures accrued at year-end the City had activities where amounts expended were greater than amounts appropriated which is a violation of State law.

Corrective Action Response: Management of the City is currently reviewing procedures related to budgetary compliance in accordance with State law.

The City's responses to the findings identified in our audit are described above. We did not audit the City's responses and, accordingly, we express no opinion on them.

We noted certain matters that we reported to management of the City of Albion in a separate letter dated June 18, 2007.

This report is intended solely for the information and use of management, Members of the City Council of the City of Albion, others within the City, the federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 18, 2007

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

MANAGEMENT LETTER

To the Honorable Mayor
and Members of the City Council
City of Albion
Albion, Michigan

As you know, we have recently completed our audit of the records of the City of Albion for the year ended December 31, 2006. In connection with the audit, we feel that a certain change in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. This suggestion is a result of our evaluation of the internal control structure and our discussions with management.

Library receipts should be written for each collection in date order.

During the course of our audit, it was noted that the Library does not write a receipt for each transaction and the receipts that are written are not necessarily in date order.

We suggest that receipts be written at the Library for each cash collection transaction and all receipts should be written in date order.

This condition was considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements and this report does not affect our report on the financial statements dated June 18, 2007.

This report is intended solely for the use of management and the City Council of the City of Albion and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you, and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 18, 2007